Notes to Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 1995

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the State of Oklahoma (State) have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements of the Higher Education Component Unit are based on the American Institute of Certified Public Accountants College Guide model.

The accompanying financial statements present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary and nonexpendable trust funds. The financial statements are presented as of June 30, 1995, and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Oklahoma State Legislature and/or Constitutional Officers of the State of Oklahoma.

A. Reporting Entity

The State has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

As required by generally accepted accounting principles, these financial statements present the State of Oklahoma (the primary government) and its component units.

Blended Component Unit

The Special Indemnity Fund is an entity within the State Insurance Fund, a discretely presented component unit of the State. The Special Indemnity Fund's purpose is to provide services exclusively to the State and in substance is the same as the State, therefore, it is reported as part of the State and blended into the General Fund. The purpose of the Special Indemnity Fund is to provide additional compensation to a worker with a pre-existing injury who suffers a second injury. The Fund was audited by other independent auditors for the period ended December 31, 1994, and their report, dated March 1, 1995, has been previously issued under separate cover. It is available from the Special Indemnity Fund, P.O. Box 53505, Oklahoma City, Oklahoma 73104.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. All of the component units included in the financial statements are state agencies. The Component Units columns of the combined financial statements include the financial data of the entities listed below.

Proprietary Component Units

Separately issued independent audit reports may be obtained from the respective proprietary component units at the addresses presented on the description page of the combining financial statement section of this report.

Oklahoma Industrial Finance Authority assists with the State's industrial development by making loans to authorized industrial development agencies or trusts and new or expanding industries within Oklahoma. These loans are secured by first or second mortgages on real estate and equipment. The Authority's loans are financed by issuance of general obligation bonds. The Board of Directors is comprised of seven members appointed by the Governor, with the advice and consent of the Senate. The Authority was audited by other independent auditors for the year ended June 30, 1995, and their report, dated September 19, 1995, has been previously issued under separate cover.

State Insurance Fund provides a source for workers' compensation insurance for all employers within the State including state agencies and other governmental units. The Fund operates similarly to other insurance companies and is financed through employer premiums. The Board of Managers is comprised of nine members: The Director of Finance, the Lieutenant Governor, the State Auditor (or their designees), the Director of Central Purchasing, and appointees by the Governor, Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The Fund was audited by other independent auditors for the year ended December 31, 1994, and their report, dated February 17, 1995, has been previously issued under separate cover.

State and Education Employees Group Insurance Board provides group health, life, and dental benefits to active employees and retirees of the State and certain other eligible participants. The Board is financed through employer and employee premiums. The Board consists of eight members: the State Insurance Commissioner, the Director of Finance, and appointees by the Governor, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate. The Board was audited by other independent auditors for the year ended June 30, 1995, and their report, dated November 30, 1995, has been previously issued under separate cover.

Oklahoma Student Loan Authority provides loan funds to qualified persons at participating educational institutions through the issuance of tax-exempt revenue bonds or other debt obligations. The Authority is composed of five members appointed by the Governor, with the advise and consent of the Senate. The Authority was audited by other independent auditors for the year ended June 30, 1995, and their report, dated September 1, 1995, has been previously issued under separate cover.

University Hospitals Authority consists of The University Hospital and Children's Hospital of Oklahoma, and their related clinics and other services. The University Hospitals Authority is affiliated with the University of Oklahoma Health Sciences Center whose medical school residents and staff provide patient care, in-service education, and certain administrative duties for the benefit of the University Hospitals Authority. The Authority is governed by a six-member board consisting of appointees of the Governor, Speaker of the House of Representatives, and the President Pro Tempore of the Senate, and officials from the state Medicaid Program, the University of Oklahoma Health Sciences Center and the Authority. The Authority was audited by other independent auditors for the year ended June 30, 1995, and their report, dated October 6, 1995, has been previously issued under separate cover.

Oklahoma Development Finance Authority provides financing for both public and private entities in the State. The Authority obtains funds through the issuance of bonds and notes. Private entities qualifying for financing are generally agricultural, civic, educational, health care, industrial, or manufacturing enterprises. Financing is also provided to governmental agencies and instrumentalities of the State. The Governing Board is comprised of seven members, of which five are appointed by the Governor, with the advice and consent of the Senate, plus the Director of the Department of Commerce and the State Treasurer. The Authority was audited by other independent auditors for the year ended June 30, 1995, and their report, dated August 18, 1995, has been previously issued under separate cover.

Oklahoma Environmental Finance Authority provides public and private entities financing for facilities necessary or useful to abate, control, and reduce air and water pollution. The Authority obtains funds through the issuance of bonds and notes. The three Trustees of the Authority are appointed by the Governor. The Authority was audited by other independent auditors for the year ended June 30, 1995, and their report, dated September 14, 1995, has been previously issued under separate cover.

Oklahoma Housing Finance Agency is authorized to issue revenue bonds and notes in order to provide funds to promote the development of residential housing and other economic development for the benefit of the State. In addition, the Agency administers Section 8 Housing Assistance Payments Programs for the U.S. Department of Housing and Urban Development. The Board of Trustees consists of five members appointed by the Governor. The Agency was audited by other independent auditors for the year ended September 30, 1994, and their report, dated December 20, 1994, has been previously issued under separate cover.

Oklahoma Turnpike Authority constructs, maintains, repairs, and operates turnpike projects at locations authorized by the Legislature and approved by the State Department of Transportation. The Authority receives its revenues from turnpike tolls and a percentage of turnpike concession sales. The Authority issues revenue bonds to finance turnpike projects. The Authority consists of the Governor and six members appointed by the Governor, with the advise and consent of the Senate. The Authority was audited by other independent auditors for the year ended December 31, 1994, and their report, dated March 31, 1995, has been previously issued under separate cover.

Grand River Dam Authority controls the waters of the Grand River system to develop and generate water power and electric energy, and to promote irrigation, conservation and development of natural resources. The Authority produces and distributes electrical power for sale to customers primarily located in northeastern Oklahoma. The customers consist of rural electric cooperatives, municipalities, industries and off-system sales. The Board of Directors consists of seven members appointed by the Governor, with the advice and consent of the Senate. The Authority was audited by other independent auditors for the year ended December 31, 1994, and their report, dated March 10, 1995, has been previously issued under separate cover.

Oklahoma Municipal Power Authority provides a means for the municipal electric systems in the State to jointly plan, finance, acquire, and operate electrical power supply facilities. Facilities are financed through the issuance of revenue bonds, which are approved by the State's Bond Oversight Commission. Exclusion of the component unit would cause the State's financial statements to be misleading or incomplete. The Authority was audited by other independent auditors for the year ended December 31, 1994, and their report, dated February 8, 1995, has been previously issued under separate cover.

Higher Education Component Unit

Separately issued independent audit reports for each college, university, or other included entity may be obtained from the Office of State Finance, 122 State Capitol Building, Oklahoma City, Oklahoma 73105.

This component unit is primarily comprised of colleges and universities which are members of the Oklahoma State System of Higher Education (the "System"). Each institution in the System is governed by a Board of Regents. The Boards of Regents consist of five to ten members appointed by the Governor, with the advice and consent of the Senate. The colleges and universities are funded through state appropriations, tuition, federal grants, and private donations and grants. Also included in the Higher Education Component Unit are the following entities.

Board of Regents of Oklahoma Colleges has legislative powers and duties to manage, supervise, and control operation of the six regional state universities which are the University of Central Oklahoma, East Central University, Northeastern State University, Northwestern Oklahoma State University, Southeastern Oklahoma State University, and Southwestern Oklahoma State University. The Board consists of nine members appointed by the Governor, with the advice and consent of the Senate.

Oklahoma State Regents for Higher Education serves as the coordinating board of control for the System. The Board of Regents for Higher Education consists of nine members appointed by the Governor, with the advice and consent of the Senate.

Ardmore Higher Education Program, Enid Higher Education Program and **McCurtain Higher Education Program** were established to make higher education available to those persons who might otherwise not be able to attend an institution of higher education. Students enrolled in the Programs earn credit applicable toward academic degrees and certificates at participating institutions in the System. Each Program is adminstered by a Board of Trustees who are appointed by the Governor, with the advice and consent of the Senate.

Rose State College Technical Area Education District, South Oklahoma City Area School District and **Tulsa Community College Area School District #18** were created to provide postsecondary vocational, technical, and adult education programs for persons within their defined geographical boundaries. The primary source of operating funds is ad valorem taxes assessed against real property located in their districts. The District's governing bodies are the same as the governing bodies of Rose State College, Oklahoma City Community College, and Tulsa Junior College, respectively.

With the exception of the Board of Regents of Oklahoma Colleges, the entities included in the Higher Education Component Unit were audited by independent auditors, for the year ended June 30, 1995, and reports dated from August 9, 1995, to December 7, 1995, have been previously issued under separate cover. Because these entities are similar in nature and function, they have been combined and presented as a single component unit.

Other local school districts and local authorities of various kinds which may meet only one of the criteria for inclusion in this report, have not been included. The State's support of the public education system is reported in the General Fund. The Higher Education Component Unit does not include the various foundations organized for the purpose of receiving and administering gifts intended for the benefit of the State's colleges and universities. During the year ended June 30, 1995, these foundations expended on behalf of the State's colleges and universities approximately $31,000,000 for facilities and equipment, salary supplements, general educational assistance, faculty awards, and scholarships.

Related Organization

Organizations for which a primary government is accountable because the State appoints a voting majority of the board, but is not financially accountable, are related organizations. The Oklahoma Ordinance Works Authority is a related organization to the primary government. The Authority's Trustees consist of the Director of the State Department of Commerce and four appointees by the Governor, President Pro Tempore, and Speaker of the House. The Authority is classified as an other stand-alone government, not a component unit of another primary government.

B. **Fund Accounting**

The financial activities are recorded in individual Funds classified by type, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A Fund is a separate accounting entity with a self-balancing set of accounts. An Account Group is a financial reporting device designed to provide accountability for assets and liabilities that are not recorded in Funds because they do not directly affect net expendable available financial resources.

The financial activities of the State reported in the accompanying financial statements have been classified into the following fund types and account groups.

1. Governmental Fund Types

General Fund - Account for all activities of the State not specifically required to be accounted for in other Funds. Included are transactions for services such as education, general government, health services, legal and judiciary, museums, natural resources, public safety and defense, regulatory services, social services, and transportation. Debt service transactions and related cash balances are reported in the General Fund with a reservation of fund balance for debt service.

Capital Projects Fund - Account for financial resources used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds, similar trust funds, or higher education funds. These resources are derived from proceeds of the general obligation bond issues on March 9, 1993, and July 21, 1993.

2. Proprietary Fund Type

Enterprise Fund - Account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public, or where sound financial management dictates that periodic determinations of results of operations are appropriate. This Fund is comprised of Oklahoma Water Resources Board bond issues.

3. Fiduciary Fund Types

The State presents as Fiduciary Funds those activities that account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other Funds.

Nonexpendable Trust Fund - This Fund requires that the principal of the trust be preserved intact. Only the earnings of the Fund are expendable. The Fund is used to account for trust transactions, assets, liabilities, and fund equity of the Commissioners of the Land Office.

Expendable Trust Funds - These Funds allow the spending of both the principal and earnings of the Trust. They account for assets received and expended by the Oklahoma Employment Security Commission from the Federal Unemployment Insurance Trust Fund and by the Department of Wildlife from resources held in trust for the improvement and preservation of wildlife.

Pension Trust Funds - Account for the transactions, assets, liabilities, and fund equity of the six state retirement systems.

Agency Funds - Account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals.

4. Account Groups

General Fixed Assets Account Group - Account for fixed assets acquired or constructed for general governmental purposes other than those of the proprietary, similar trusts, and higher education fund types.

General Long-Term Debt Account Group - Account for unmatured general obligation bonds, revenue bonds, certificates of participation, lease revenue bonds, capital lease obligations, employee leave obligations, Special Indemnity Fund's insurance loss liabilities, and other long-term obligations not recorded in proprietary, similar trust funds, or higher education fund types.

5. Component Units

These Funds are legally separate from the State but are considered part of the State reporting entity.

Proprietary Funds - These Funds meet the definition of both a component unit and that of an enterprise fund as previously described.

Higher Education Funds - These funds account for transactions related to the resources received and used in operation of the State's colleges and universities.

Current Funds - Account for unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes and restricted funds which may be utilized in accordance with externally restricted purposes.

Loan, Endowment, and Agency Funds - Account for assets in which the colleges and universities act in a fiduciary capacity.

Plant Funds - Account for institutional property acquisition, renewal, replacement, and debt service.

Financial Statement Reporting Periods

The accompanying financial statements of the State are presented as of June 30, 1995, and for the year then ended, except for the following entities which were audited by other independent auditors.

Special Indemnity Fund	12-31-94
State Insurance Fund	12-31-94
Oklahoma Turnpike Authority	12-31-94
Grand River Dam Authority	12-31-94
Oklahoma Municipal Power Authority	12-31-94
Oklahoma Housing Finance Agency	9-30-94

C. **Basis of Accounting**

The accounting and financial reporting treatment applied to a f und is determined by its measurement focus.

All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these f unds present increases (e.g., revenues and othe financing sources) and decreases (e.g., expenditures and other financing uses) in net current assets.

All proprietary funds, nonexpendable trust funds, pension trust funds and proprietary component units are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these f unds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into retained earnings components. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Each proprietary fund has the option under Governmental Accounting Standards Board (GASB), Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The primary government enterprise fund has elected to not apply FASBs issued after the applicable date. Each proprietary component unit has individually made this election as disclosed in their separate audit reports.

All governmental funds, expendable trust and agency funds are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and related current assets are recognized when measurable and available to finance operations during the year or liquidate liabilities existing at the end of the year; expenditures and liabilities are recognized when obligations are incurred as a result of receipt of goods and services. Some revenue items which are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with Generally Accepted Governmental Accounting Standards since they have been earned and are expected to be collected within sixty days of the end of the period. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 1995, has been reported in the General Long-Term Debt Account Group (see Item L of this Note).

- Interest on general long-term obligations is recognized when paid.

- Executory purchase orders and contracts are recorded as a reservation of fund balance.

The accounts of the enterprise, nonexpendable trust, pension trust funds, and proprietary component units are reported using the accrual basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

The Higher Education Component Unit is accounted for on the accrual basis of accounting, with the following exceptions:

- Twelve of the State's colleges and universities report depreciation expenses related to Plant Fund assets.

- Revenues and expenditures of an academic term encompassing more than one fiscal year are solely reported in the fiscal year in which the program is predominantly conducted.

The Higher Education Component Unit is an aggregate of financial statements from the 34 higher education entities described in Item A of this Note.

D. **Budgeting and Budgetary Control**

The State's annual budget is prepared on the cash basis utilizing encumbrance accounting. Encumbrances represent executed but unperformed purchase orders. In the accompanying financial statements, encumbrances are recorded as expenditures for budgetary purposes if expected to be presented for payment by November 15 following the end of the fiscal year and as reservations of fund balance for GAAP purposes. Since the budgetary basis differs from generally accepted accounting principles, budget and actual amounts in the accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual (Non-GAAP Budgetary Basis) are presented on the budgetary basis. A reconciliation of revenues in excess of (less than) expenditures and other financing sources (uses) on a budgetary basis at June 30, 1995, to revenues in excess of (less than) expenditures and other financing sources (uses) presented in conformity with generally accepted accounting principles is set forth in Note 2.

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on budget requests prepared by the various state agencies. The General Fund is the only Fund for which an annual budget is legally adopted. Budgeted expenditures can not exceed the amount available for appropriation as certified by the State Board of Equalization. The Legislature may modify the Governor's proposed budget as it deems necessary and legally enacts an annual state budget through the passage of appropriation bills. The Governor has the power to approve or veto each line item appropriation.

The legal level of budgetary control is maintained at the line item level (i.e., General Operations, Personal Services, Duties, etc.) identified in the appropriation acts. Budgets may be modified subject to statutory limits on transfers. The Director of the Office of State Finance can approve transfers between line items up to 25%. Agencies can obtain approval from the Contingency Review Board to transfer up to an additional 15%; however, all transfers are subject to review by the Joint Legislative Committee on Budget and Program Oversight to determine if the transfer tends to effectuate or subvert the intention and objectives of the Legislature.

Current policy allows agencies to use unexpended monies for one-time purchases or non-recurring expenditures in the next fiscal year. This policy provides an incentive for management to distribute resources efficiently; however, it is subject to annual approval by the Legislature. Unexpended balances not carried forward to the new fiscal year by November 15 may: 1) lapse to unrestricted balances and be available for future appropriation, 2) lapse to restricted balances and be available for future appropriations restricted for specific purposes as defined by statute, or 3) be non-fiscal, and may be spent from one to 30 months from the date of appropriation.

If funding sources are not sufficient to cover appropriations, the Director of the Office of State Finance is required to reduce the budget by the amount of such deficiency. Any other changes to the budget must be approved by the Legislature in a supplemental appropriation. For fiscal year 1995, $8,300,000 was approved by the Legislature for supplemental appropriation. All 1995 appropriated line items of the State were within their authorized spending level.

E. **Cash and Deposits**

The State uses a pooled cash concept in maintaining its bank accounts. All cash is pooled for operating and investment purposes and each Fund has an equity in the pooled amount. For reporting purposes, cash and related time deposits have been allocated to each Fund based on its equity in the pooled amount. Interest earned on investments is allocated to the General Fund except for those investments made specifically for the Capital Projects Fund, proprietary fund type, fiduciary fund type, proprietary component units, and Higher Education Component Unit, for each of which investment revenue is allocated to the investing fund.

The State Treasurer requires that financial institutions deposit collateral securities to secure the deposits of the State in each such institution. The amount of collateral securities to be pledged for the security of public deposits shall be established by rules and regulations promulgated by the State Treasurer.

The Oklahoma Employment Security Commission Trust Fund is maintained to account for the collection of unemployment contributions from employers and the payment of unemployment benefits to eligible claimants. As required by Federal law, all resources not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest from these resources is retained in the Fund.

For purposes of reporting cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash.

F. **Investments**

Investments may be restricted by law or legal instruments. They may be under control of the State Treasurer or controlled by other administrative bodies as determined by law.

Governmental fund type investments are generally stated at cost, which approximates market.

For enterprise, nonexpendable trust funds, and proprietary component units, investments are generally recorded at cost adjusted for premiums and discounts. Adjusted cost approximates market. Investments are generally recorded at cost for pension trust funds.

Agency fund investments are generally stated at cost, which approximates market value. However, investments in mutual funds are stated at their fair market value based on published prices.

Higher Education Component Unit investments are recorded at cost, adjusted for amortization of premiums and discounts, or fair market value at the date of the gift. Adjusted cost approximates market.

G. **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts .

Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenues due on each investment. Contributions receivable in fiduciary funds consist of amounts due on employee and employer contributions to pension trust funds. Taxes receivable in governmental funds represent taxes subject to accrual, primarily income taxes and sales taxes, that are collected within sixty days after year end. Lease payments receivable in the General Fund consist of capital lease payments due for equipment and railroad lines owned by the Department of Transportation. Collectibility of these receivables is reasonably assured and no allowance for uncollectible amounts has been established.

Taxes receivable in fiduciary funds represent unemployment taxes due at year end, net of an allowance for uncollectible amounts. The uncollectible amounts are based on collection experience and a review of the status of existing receivables.

H. Inter/Intrafund Transactions

Interfund Transactions - The State has three types of interfund transactions.

- Services rendered transactions are accounted for as revenues and expenditures or expenses in the Funds involved.
- Operating appropriations/subsidies are accounted for as operating transfers in the F unds involved.
- Equity and working capital contributions are accounted for as residual equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund equity).

Intrafund Transactions - Intrafund transfers, as a result of contracts among departments and/or agencies within the same Fund, are considered expenditures by the contractor and revenues by the contractee for budgetary purposes. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual includes these transactions. However, recorded intrafund revenues and expenditures have been eliminated in the GAAP-basis Combined Statement of Revenues, Expenditures, and Changes in Fund Balances.

Amounts reported as Due to Other Funds and Due from Other Funds, and amounts reported as Operating Transfers In and Operating Transfers Out are compiled partially from annual reports of entities audited by external auditors. The entities that do not have fiscal periods ending on June 30 create timing differences which have been reconciled.

A portion of motor fuel excise taxes collected on fuels consumed on the State's turnpikes is made available to the Oklahoma Turnpike Authority (OTA) from the Oklahoma Tax Commission. These monies are apportioned to OTA monthly to fund debt service, to the extent monies are not otherwise available to OTA. If the motor fuel excise taxes apportioned to OTA are not needed in the month of apportionment, the taxes are to be transferred to the Department of Transportation (DOT). The balance owed to DOT at year end is presented as a noncurrent Due to Other Funds on the financial statements of OTA.

I. Inventories

Inventories of materials and supplies are determined both by physical counts and through perpetual inventory systems. Generally, inventories are valued at cost and predominately on either the first-in, first-out or weighted average basis. Governmental fund inventories are recorded as expenditures when consumed rather than when purchased by recording adjustments to the inventory account on the balance sheet. In addition, the inventories on hand at year-end are reflected as a reservation of fund balance on the balance sheet.

The value of the inventory of food commodities in the Agency Fund is calculated by using a weighted average cost based on the U.S. Department of Agriculture commodity price list at the inventory receipt date. The value of the inventory of food stamps in the Agency Fund is valued at coupon value. The food stamp inventory includes amounts at remote locations in the counties of the State. State statute provides that counties must participate in the food stamp program, have adequate qualified personnel, suitable facilities for storing and issuing stamps, and bonding of personnel and insurance as required by the State. State statute also provides for the State to distribute food stamps within a county through one or more issuing offices, through local banks, or through other means. Regardless of the distribution means, the food stamp inventory at remote locations remains under State jurisdiction until issued to eligible recipients.

Higher education inventories are stated at the lower of cost or market, cost being determined on either the first-in, first-out, or average cost basis.

J. **Fixed Assets**

General Fixed Assets - Fixed assets used in governmental-type operations (general fixed assets) are recorded as expenditures in the governmental funds and the related assets are reported in the General Fixed Assets Account Group (GFAAG). Purchased and constructed general fixed assets are valued in the GFAAG at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation. The estimates of historical costs of buildings and other improvements were based on appraised value, as of August 4, 1994, indexed to the date of acquisition. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend as asset's useful life are not capitalized. Significant general fixed assets which have a cost in excess of $25,000 at the date of acquisition and have an expected useful life of five or more years are capitalized.

Interest incurred during construction of capital facilities is not capitalized. General fixed assets are not depreciated.

Infrastructure is normally immovable and of value only to the State. Infrastructure, which includes roads, bridges, dikes, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, is not reported in the General Fixed Assets Account Group.

Proprietary and Similar Trust Fund Fixed Assets - Purchased and constructed fixed assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation. Fixed assets, excluding land, are depreciated on the straight-line method over the assets' estimated useful life. Generally, estimated useful lives are as follows:

Buildings and Other Improvements	7 - 45 years
Machinery and Equipment	3 - 20 years

Higher Education Fixed Assets - Purchased and constructed fixed assets are stated principally at cost or fair market value at the date of donation in the case of gifts. Depreciation is provided for the cost of plant assets of certain colleges and universities which elect the option of reporting depreciation expense in Plant Funds. Depreciation, which is charged to expenditures, is computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings and Other Improvements	40 - 60 years
Machinery and Equipment	5 - 10 years

K. **Deferred Revenue**

Deferred revenues arise when a potential revenue does not meet the "available" criterion for recognition in the current period. "Available" is defined as due (or past due) at June 30, and collected thereafter to pay obligations due at June 30. Deferred revenues also arise when resources are received by the State before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet, and revenue is recognized.

L. **Compensated Absences**

Employees earn annual vacation leave at the rate of 10 hours per month for the first 5 years of service, 12 hours per month for service of 5 to 20 years, and 13.3 hours per month for over 20 years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon termination, resignation, retirement, or death. The General Fund records expenditures when employees are paid for leave, and the cost of accumulated vacation leave is recorded in the General Long-Term Debt Account Group.

M. Risk Management

The Risk Management Division of the Department of Central Services is responsible for the acquisition and administration of all insurance purchased by the State or administration of any self-insurance plans and programs adopted for use by the State or for certain organizations and bodies outside of state government, at the sole expense of such organizations and bodies.

The Risk Management Division is authorized to settle claims of the State and oversees the dispensation and/or settlement of claims against a state political subdivision. In no event shall self-insurance coverage provided to the State, an agency or other covered entity exceed the limitations on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act. The Risk Management Division oversees the collection of liability claims owed to the State incurred as the result of a loss through the wrongful or negligent act of a private person or other entity.

The Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the State presented to the Risk Management Division.

N. Grants

Federal grants include non-monetary transactions for food stamps, food, and other commodities. Food stamps are valued at coupon value. Commodities are valued at their federally reported value in the Agency Fund.

O. Fund Balance Reserves and Designations

The State's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure or (2) legally segregated for a specific future use. In the accompanying combined balance sheet, reserves for related assets such as inventories and prepayments are examples of the former. Reserves for encumbrances, contracts, and other specific purposes are examples of the latter. The State's fund balance designation reflects tentative plans for future use of financial resources.

P. Total (Memorandum Only)

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of these data.

Q. Comparative Data/Restatements

Comparative total (Memorandum Only) data for the prior year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Certain amounts presented have been reclassified to be consistent with the current year presentation.

Note 2. Budgetary Reporting

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual (Budgetary Basis) presents comparisons of the legally adopted budget with actual data on a budgetary basis.

Certain appropriations are transferred to non-lapsing funds for expenditure. Unexpended amounts so transferred may then be rebudgeted in subsequent fiscal years. Transfers by function of government within the General Fund are as follows (expressed in thousands):

Education	$	18,860
General Government		6,044
Health Services		6,870
Legal & Judiciary		922
Natural Resources		276
Regulatory Services		67
Social Services		675,716
Transportation		169,877
	$	878,632

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resulting basis, perspective, and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations for the year ended June 30, 1995, is presented below (expressed in thousands) for the General Fund.

Fund Balance, (Budgetary Basis), June 30, 1994	$	479,372
Prior Year Adjustment		10,800
Adjusted Fund Balance, (Budgetary Basis), July 1, 1994		490,172
Excess of total sources over total uses of financial resources (Budgetary Basis)		97,440
Fund Balance, (Budgetary Basis), June 30, 1995		587,612
Entity and Perspective Differences:		
Non-budgeted Funds and Capital Funds		635,925
Encumbrances		865
Basis Differences:		
Add: Net accrued revenues, related receivables, and deferred revenues		293,088
Less: Net accrued expenditures and related liabilities		(383,807)
Fund Balance, GAAP Basis	$	1,133,683

Note 3. Cash and Investments

The State Treasurer requires that financial institutions must deposit collateral securities to secure the deposits of the State in each such institution. The amount of collateral securities to be pledged for the security of public deposits is established by rules promulgated by the State Treasurer. In accordance with State Treasurer's Office Security for Public Deposits Rules and Regulations, the amount of collateral securities to be pledged by financial institutions through the State Treasurer's Office are pledged at market value and must be at 110% of value to collateralize the amount on deposit, less any federal insurance coverage. This percentage may vary for political subdivisions according to their respective policies.

In accordance with State statute, the State Treasurer may purchase and invest in the following: obligations of the United States Government, its agencies and instrumentalities; collateralized or insured certificates of deposit; negotiable certificates of deposit; prime banker's acceptances; prime commercial paper; investment grade obligations of state and local governments; repurchase agreements; and money market funds.

Deposits

As of June 30, 1995, the State and its discretely presented component units' bank balances of deposits are fully insured or collateralized with securities held by the State's or its discretely presented component units' agent in their respective names. In addition to these d eposits, the State has approximately $502,000,000 on deposit with the U.S. Government. These funds represent unemployment insurance taxes collected from Oklahoma employers which are held by the U.S. Treasury.

Investments

The State's investments are categorized below per Governmental Accounting Standards Board Statement 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements,* to give an indication of the level of custodial risk assumed at year end. Category 1 includes investments that are insured, registered, or are held by the State or its agent in the name of the State. Category 2 includes uninsured and unregistered investments, which are held by the counterparties' trust departments or agents in the name of the State. Category 3 includes uninsured and unregistered investments, held by counterparties, or their trust departments or agents, but not in the name of the State.

Investments at June 30, 1995, by investment type, are listed below (expressed in thousands).

Primary Government	Carrying Amount Risk Categories				Market
	1	2	3	Total	Value
U.S. Government Securities	$ 3, 119,069	$ -	$ -	$ 3,119,069	$ 3,166,912
Repurchase Agreements	899,071	-	15,955	915,026	915,160
Short Term Securities	499,552	-	-	499,552	500,801
State Bond Issues	23,761	-	-	23,761	23,766
Debt Securities	1,024,042	-	-	1,024,042	1,032,434
Equity Securities	3,630,595	9	-	3,630,604	4,200,532
	$ 9,196,090	$ 9	$ 15,955	9,212,054	9,839,605
Investments Not Subject to Categorization:					
Guaranteed Investment Contracts				76,411	76,411
Real Estate				108,879	118,537
Mutual Funds				32,736	32,736
Money Market/Savings Accounts				83,394	83,394
Securities Lending Program:					
U.S. Government Securities				234,810	241,643
Debt Securities				41,068	42,103
Equity Securities				17,563	18,709
Less: Component Unit's Investment in State Treasurer Pool				(147,825)	(147,959)
Total Investments				$ 9,659,090	$ 10,305,179

Component Units - Proprietary	Carrying Amount Risk Categories				Market
	1	2	3	Total	Value
U.S. Government Securities	$ 581,695	$ 202,697	$ 9,082	$ 793,474	$ 785,655
Repurchase Agreements	61,673	-	42,880	104,553	104,553
Short Term Securities	72,423	-	-	72,423	72,625
Debt Securities	167,833	3,015	-	170,848	169,865
Equity Securities	119,349	-	-	119,349	119,349
	$ 1,002,973	$ 205,712	$ 51,962	1,260,647	1,252,047
Investments Not Subject to Categorization:					
Guaranteed Investment Contracts				183,185	183,185
Real Estate				4,601	4,601
Mutual Funds				3,106	3,106
Money Market				17,604	17,604
Investment in State Treasurer Pool				46,791	46,925
Total Investments				$ 1,515,934	$ 1,507,468

Component Unit-Higher Education	Carrying Amount Risk Categories 1	2	3	Total	Market Value
U.S. Government Securities	$ 40,811	$ 24,107	$ -	$ 64,918	$ 65,974
Short Term Securities	525	-	-	525	525
State Bond Issues	5,950	-	-	5,950	5,950
Debt Securities	98	-	-	98	103
Equity Securities	7,857	-	-	7,857	10,660
	$ 55,241	$ 24,107	$ -	79,348	83,212
Investments Not Subject to Categorization:					
Real Estate				347	347
Mutual Funds				86,806	94,553
Money Market				306	306
Investment in State Treasurer Pool				101,034	101,034
Total Investments				$ 267,841	$ 279,452

The following display reconciles the details included within this footnote to the Combined Balance Sheet at June 30, 1995 (expressed in thousands).

	Primary Government	Component Unit Proprietary	Component Unit Higher Education
Investments per Combined Balance Sheet	$ 8,502,843	$ 1,437,453	$ 298,639
Non-negotiable certificates of deposit classified as investments on balance sheet	(9,298)	-	(71,063)
Pooled cash investments classified as cash on balance sheet	1,165,545	59,456	-
Investment in State Treasurer Pool classified as cash on balance sheet	-	19,025	40,265
Total Investments	$ 9,659,090	$ 1,515,934	$ 267,841

State statute authorizes securities lending programs within the State's investment policy. The securities subject to the agreement are commingled with the securities of other lenders. Under an agreement entered into by the Teachers Retirement System, the loaned securities are initially collateralized at a minimum of 102% of their market values. Collateral consists of U.S. government securities, certificates of deposit, commercial paper, bankers' acceptances, repurchase agreements, floating rate notes, participation notes, money market funds, and bank letters of credit. The collateral is marked-to-market daily such that at the close of trading on any business day the value of collateral shall not be less than 100% plus accrued interest on the loaned securities. The market value of the securities on loan was $302,455,000 at June 30, 1995, and the collateral under the agreement had a market value of $338,850,000 at June 30, 1995. The loan premium paid by the borrower of the securities and the proceeds received from the invested collateral is apportioned among the parties to the agreement in accordance with the agreement.

Note 4. Accounts Receivable

Receivables as of June 30, 1995, including the applicable allowances for uncollectible accounts, are as follows (expressed in thousands).

Receivables:	General	Capital Projects	Enterprise	Trust & Agency	Component Unit Proprietary	Component Unit Higher Education	Total
Accounts	$ 54,621	$ -	$ -	$ 2,803	$ 114,559	$ 106,222	$ 278,205
Interest	12,562	449	3,039	59,578	19,783	2,460	97,871
Contributions	-	-	-	4,026	-	-	4,026
Federal	209,561	3,500	-	304	5,838	1,985	221,188
Taxes	108,470	-	-	3,096	-	-	111,566
Lease Payment	40,570	-	-	-	-	-	40,570
Other	1,421	-	-	95,026	4,262	-	100,709
Notes and Loans	-	-	133,971	-	625,688	53,046	812,705
Gross Receivables	427,205	3,949	137,010	164,833	770,130	163,713	1,666,840
Less: allowance for uncollectibles	(17,909)	0	0	0	(20,646)	(40,092)	(78,647)
Net Total Receivables	$ 409,296	$ 3,949	$ 137,010	$ 164,833	$ 749,484	$ 123,621	$ 1,588,193

Note 5. Interfund Accounts/Operating Transfers

A. Due from Other Funds/Due to Other Funds

A summary of interfund obligations at June 30, 1995, is shown below (expressed in thousands).

	Due From		Due To	
	Other Funds	Component Units	Other Funds	Component Units
Primary Government				
General Fund	$ 36	$ 41,956	$ 21,391	$ 11,089
Capital Projects	-	-	-	1,022
Trust and Agency Funds:				
Oklahoma Law Enforcement Retirement System	774	-	-	-
Oklahoma Public Employees Retirement System	8,576	1,266	-	-
Uniform Retirement System for Justices and Judges	692	-	-	-
Oklahoma Police Pension and Retirement System	367	-	-	-
Teachers' Retirement System of Oklahoma	9,717	-	-	-
Assets Held for Beneficiaries	-	-	26	-
Other	375	290	-	-
Total Primary Government	$ 20,537	$ 43,512	$ 21,417	$ 12,111

	Due From			Due To		
	Primary Government	Other Funds	Other Component Units	Primary Government	Other Funds	Other Component Units
Component Units						
Proprietary Funds:						
Oklahoma Industrial Finance Authority	$ 8	$ -	$ 11	$ 4	$ -	$ -
State Insurance Fund	1,228	-	189	186	-	-
State and Education Employees Group Insurance Board	8,011	-	-	99	-	30
Oklahoma Student Loan Authority	-	-	-	-	-	1
University Hospitals Authority	218	-	637	2,022	-	725
Oklahoma Development Finance Authority	-	-	-	-	-	11
Oklahoma Housing Finance Agency	-	-	-	2	-	-
Oklahoma Turnpike Authority	-	-	-	39,894	-	40
Grand River Dam Authority	23	-	520	189	-	47
Oklahoma Municipal Power Authority	-	-	-	10	-	520
Higher Education Funds:						
Current, Unrestricted	9,611	43,626	754	454	27,225	686
Current, Restricted	-	2,669	-	-	17,122	-
Loan	-	2,724	-	-	19	-
Endowment	-	1,669	-	-	11,839	-
Plant	1,022	1,155	-	-	2,225	-
Agency	-	6,756	-	-	169	-
Total Component Units	$ 20,121	$ 58,599	$ 2,111	$ 42,860	$ 58,599	$ 2,060

The amount of total interfund receivables of $144,880,000 does not agree with total interfund payables of $137,047,000 at June 30, 1995. The following presents a reconciliation of interfund accounts reported at June 30, 1995 (expressed in thousands).

Due From Other Funds	$ 79,136
Due From Component Units	45,623
Due From Primary Government	20,121
Total Interfund Receivables Per Financial Statements	144,880
Financial Statement Account Presentation Differences	
Trust and Agency Funds	890
Total Interfund Receivables	$ 145,770

Due To Other Funds	$ 80,016
Due To Component Units	14,171
Due To Primary Government	42,860
Total Interfund Payables Per Financial Statements	137,047
Financial Statement Account Presentation Differences	
Trust and Agency Funds	8,021
Timing Differences, Fiscal Years Ending December 31, 1994 -	
Proprietary Component Units	702
Total Interfund Payables	$ 145,770

B. **Operating Transfers**

A summary of interfund operating transfers for the fiscal year ended June 30, 1995, follows (expressed in thousands).

	Operating Transfers			
Primary Government	In	From Component Units	Out	To Component Units
General Fund	$ 3,684	$ 32,399	$ 170,239	$ 612,260
Capital Projects	-	5,706	-	86,249
Expendable Trust:				
Employment Security Commission	3	-	-	-
Proprietary Funds:				
Oklahoma Water Resources Board - Bond Issues	-	-	4,754	-
Nonexpendable Trust:				
Commissioners of the Land Office	-	-	3,684	15,202
Pension Trust:				
Oklahoma Firefighters Pension and Retirement System	35,345	-	-	-
Oklahoma Law Enforcement Retirement System	10,926	-	-	-
Oklahoma Police Pension and Retirement System	14,555	-	-	-
Teachers' Retirement System of Oklahoma	109,410	-	-	-
Total Primary Government	$ 173,923	$ 38,105	$ 178,677	$ 713,711

	Operating Transfers			
Component Units	In	From Primary Government	Out	To Primary Government
Proprietary Funds:				
Oklahoma Turnpike Authority	$ -	$ 27,898	$ -	$ 27,898
University Hospitals Authority	-	26,477	-	-
Higher Education Funds:				
Current, Unrestricted	-	529,079	-	-
Current, Restricted	-	24,796	-	-
Endowment	-	7,500	-	-
Plant	-	96,778	-	-
Total Component Units	$ -	$ 712,528	$ -	$ 27,898

The amount of total Operating Transfers In of $924,556,000 does not agree with total Operating Transfers Out of $920,286,000 for the fiscal year ended June 30, 1995. The following presents a reconciliation of operating transfers reported in the financial statements (expressed in thousands).

Operating Transfers In - All Funds	$	173,923
Operating Transfers In - From Component Units		38,105
Operating Transfers In - From Primary Government		712,528
Total Operating Transfers In Per Financial Statements		924,556
Financial Statement Account Presentation Differences		
Higher Education Component Unit		1,413
Proprietary Component Units		23
Total Operating Transfers In	$	925,992
Operating Transfers Out - All Funds	$	178,677
Operating Transfers Out - To Component Units		713,711
Operating Transfers Out - To Primary Government		27,898
Total Operating Transfers Out Per Financial Statements		920,286
Financial Statement Account Presentation Differences		
Higher Education Component Unit		5,706
Total Operating Transfers Out	$	925,992

Note 6. Fixed Assets

Fixed Assets by category, as of June 30, 1995 (December 31, 1994, or September 30, 1994, for those entities/funds identified in Item B of Note 1) are summarized below (expressed in thousands).

	Primary Government		Component Units		
	Pension Trusts	General Fixed Assets	Proprietary	Higher Education	Total
Land	$ 188	$ 48,697	$ 929,540	$ 129,502	$ 1,107,927
Buildings and Other Improvements	-	545,927	1,218,617	1,062,874	2,827,418
Machinery and Equipment	2,206	184,553	173,546	592,429	952,734
Construction in Progress	-	24,180	40,527	82,677	147,384
Total	2,394	803,357	2,362,230	1,867,482	5,035,463
Less: Accumulated Depreciation	87	-	960,589	214,855	1,175,531
Total	$ 2,307	$ 803,357	$ 1,401,641	$ 1,652,627	$ 3,859,932

Changes in general fixed assets for the year ended June 30, 1995, were as follows (expressed in thousands)
.

	Balance July 1, 1994	Additions	Deletions/ Net Transfers	Balance June 30, 1995
Land	$ 46,017	$ 2,680	$ -	$ 48,697
Buildings and Other Improvements	542,056	4,413	542	545,927
Machinery and Equipment	175,236	15,650	6,333	184,553
Construction in Progress	3,877	22,811	2,508	24,180
Total	$ 767,186	$ 45,554	$ 9,383	$ 803,357

Note 7. Risk Management and Insurance

It is the policy of the State of Oklahoma to cover the risk of losses to which it may be exposed through risk management activities. In general, the State is self-insured for health care claims (except for participation in certain health maintenance organizations), workers' compensation, tort liability (except for excess coverage for certain losses in excess of $1,000,000), vehicle liability, and property losses (except for excess coverage for certain losses in excess of $250,000, or $750,000 for certain agencies). The property loss excess coverage is limited to a maximum loss of $1,000,000,000 .

Coverage for health care claims and workers' compensation is provided by two separate proprietary component units. The State and Education Employees' Group Insurance Board provides group health, life, and dental benefits to the State's employees and certain other eligible participants. The State Insurance Fund provides workers' compensation coverage for the State's employees (and private and local government employees).

The State Insurance Fund administers claim payments and provides excess-of-loss reinsurance to certain governmental entities that are self-insured. The premiums and fees received in connection with these transactions are included in sales and were approximately $6,481,000 in 1994. The incurred claims in excess of the self-insured entities' respective retention limits were approximately $9,653,000 in 1994. The liability for claims in excess of the self-insured entities' respective retention limits included in unpaid losses and loss adjustment expenses were approximately $24,903,000 at December 31, 1994.

The State Insurance Fund limits the maximum net loss that can arise from risks by entering into reinsurance agreements to assign risk to other insurers on a catastrophe basis. Premiums paid for this reinsurance were approximately $152,000 in 1994. No losses have been ceded under these agreements. Reinsurance receivables with a single reinsurer of $651,000 at December 31, 1994, have been recorded in anticipation of estimated amounts to be recovered from reinsurers in future years for losses ceded pursuant to certain prior year reinsurance agreements. These agreements do not relieve the Fund from its obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Fund. Management believes that all reinsurers presently used are financially sound and will be able to meet their contractual obligations.

The remaining risk management activities of the State are included in the State's General Fund. The Risk Management Division of the Department of Central Services is responsible for administering the State's tort liability, vehicle liability, property loss, and other types of risk coverage. Also, the Division is responsible for the acquisition and administration of all insurance policies purchased by the State and administration of any self-insurance plans and programs adopted for use by the State (and for certain organizations and bodies outside of state government).

Estimates relating to incurred but not reported claims, as well as other probable and estimable losses have been included in accrued liabilities for each fund. Because actual claims liabilities are impacted by complex factors including inflation, changes in legal doctrines, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, and other economic and social factors.

The following table presents the changes in claims liabilities balances (short and long-term combined) during the fiscal year ended June 30, 1995 (December 31, 1994, for State Insurance Fund), (expressed in thousands).

	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
Risk Management - Total	$ 6,728	$ 1,697	$ (1,561)	$ 6,864
General Fund				(3,734)
General Long-Term Debt Account Group				3,130
Proprietary Component Units:				
State Insurance Fund	531,194	322,461	(220,305)	633,350
State and Education Employees Group Insurance Board	119,603	153,261	(220,845)	52,019
Total Proprietary Component Units	$ 650,797	$ 475,722	$ (441,150)	$ 685,369

The General Fund self-insurance loss liability represents an estimate of payments to be made from currently expendable available financial resources for liabilities arising on or before June 30, 1995 .

Public Entity Risk Pool - State and Education Employees' Group Insurance Board

The State operates the Oklahoma State and Education Employees' Group Insurance Board (Plan), a Public Entity Risk Pool.

A. **Description of Plan**

The Plan provides group health, dental and life benefits to participants of the Oklahoma Public Employees Retirement System (OPERS) and Teachers' Retirement System of Oklahoma (TRS), active employees of the State and school districts, persons covered by COBRA, survivors, and certain local government employees. The Plan is self-insured and provides participants with the option of electing coverage from certain health maintenance organizations (HMOs). Disability coverage is not available to educational participants. Premium rates for active, nonactive, non-Medicare, and Medicare participants are separately established.

The health, dental, life, and disability coverages for governmental participants are funded by monthly premiums paid by OPERS, TRS, the State, school districts, local governmental units, and individuals. A participant may extend coverage to dependents for an additional monthly premium based on the coverage requested. Of the 171,000 primary participants and dependents, approximately 16,000 primary participants and 12,000 dependents were covered by HMOs. These counts relate to health coverage only.

All state agencies are required to participate in the Plan. Eligible local government entities may elect to participate in the Plan (651 local government entities actually participate). Education entities may participate if a minimum of 50% of their eligible employees elect to join the Plan. Any education entity or local government entity which elects to withdraw from the Plan may do so with 30 days written notice.

A summary of available coverages and eligible groups, along with the number of health care participants follows.

	State Employee	Education Employee	Local Government Employee	OPERS	TRS	Survivors	COBRA
Health	X	X	X	X	X	X	X
Dental	X	X	X	X	X	X	X
Life	X	X	X	X			
Disability	X		X				
Medicare supplement				X	X	X	
Health Care Participants:							
Primary	23,000	26,000	5,000	34,000			
Dependents	55,000						

B. **Unpaid Claims Liabilities**

The Plan establishes policy and contract claim reserves based on the ultimate estimated cost of settling claims that have been reported but not settled, and of claims that have been incurred but not yet reported. Disability reserves are also established based on the estimated ultimate cost of settling claims of participants currently receiving benefits and for disability claims incurred but not yet reported to the Plan.

The reserves are determined using the Plan's historical benefit payment experience. The length of time for which costs must be estimated depends on the coverages involved. Although such estimates are the Plan's best estimates of the incurred claims to be paid, due to the complex nature of the factors involved in the calculation, the actual results may be more or less than the estimate. The claim liabilities are recomputed on a periodic basis using actuarial and statistical techniques which consider the effects of general economic conditions, such as inflation, and other factors of past experience, such as changes in participant counts. Adjustments to claim liabilities are recorded in the periods in which they are made.

Liabilities include health and dental, and life reserves for future policy benefits of conversion coverages. Conversion coverages represent insurance coverage for participants of the Plan who are retired or inactive. Reserves for future policy benefits are required to be recorded as a liability for long-duration contracts. Because the Plan does not have the right to cancel conversion coverage as long as premiums are paid, conversion coverages have been determined to be long-duration contracts. All other coverages have been determined to be short-duration contracts (non-conversion coverages).

Liabilities include premium deficiency reserves for disability coverages. Premium deficiency reserves are required to be recorded as a liability if a probable loss relating to the future gross premiums and benefits is estimable. A probable loss was estimable at June 30, 1995 . Anticipated investment income is not considered in determining whether a premium deficiency exists.

C. **Reconcililation of Claims Liabilities**

The schedule below presents the changes in policy and contract claim reserves and disability reserves for the past two years for the three types of coverages: health and dental, life, and disability (expressed in thousands).

	Health and Dental		Life		Disability	
	1995	1994	1995	1994	1995	1994
Reserves at beginning of year	$ 30,553	$ 42,009	$ 1,555	$ 648	$ 14,432	$ 11,453
Incurred claims:						
Provision for insured events of current year	217,181	201,461	6,553	7,309	8,073	10,506
Changes in provisions for insured events of prior years	(7,507)	(16,819)	(722)	114	710	(5,088)
	209,674	184,642	5,831	7,423	8,783	5,418
Payments:						
Claims attributable to insured events of current year	187,946	171,036	5,664	5,755	1,063	1,425
Claims attributable to insured events of prior years	22,721	25,062	815	761	2,636	1,014
	210,667	196,098	6,479	6,516	3,699	2,439
Reserves at end of year	$ 29,560	$ 30,553	$ 907	$ 1,555	$ 19,516	$ 14,432

D. **Revenue and Claims Development Information**

The separately issued audited financial statements for the Plan include Required Supplementary Information regarding revenue and claims development.

Note 8. Deficit Fund Equity and Outstanding Court Awards

Funds reporting a deficit fund balance or retained earnings position at June 30, 1995, or other fiscal year ends for component units are (expressed in thousands):

Proprietary Component Unit:	
State Insurance Fund (December 31, 1994)	$ 41,517

The State Insurance Fund has increased its rates in 1995 to help cover the deficit. Additionally the fund is investigating the possibility of other arrangements to reduce the deficit through management or operating changes.

The Special Indemnity Fund records a liability for outstanding court awards only as those amounts are awarded by the Workers' Compensation Court for both permanent partial and permanent total disability awards. There is no provision for incurred but not reported claims or claims pending Court determination. Claims and Judgements Payable include permanent partial awards which were due and owing at December 31, 1994. These amounts, which have been charged to operations for the year ended December 31, 1994, would have been paid during the year had resources been available. During calendar year 1994, the amount of awards in arrears has increased $4,450,439, from $8,992,000 to $13,442,439.

Note 9. Operating Lease Commitments

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for equipment operating leases as of June 30, 1995, follows (expressed in thousands).

		Component Units	
	Primary Government	Proprietary	Higher Education
1996	$ 1,043	$ 103	$ 38
1997	585	48	39
1998	416	5	39
1999	399	-	35
2000	398	-	33
Later Years	401	-	-
Total Future Minimum Lease Payments	$ 3,242	$ 156	$ 184
Operating lease committments for building rental for year ended June 30, 1996	$ 13,465	$ 4,368	$ 926
Rent expenditures/expenses for operating leases for year ended June 30, 1995	$ 14,257	$ 4,602	$ 3,741

Note 10. Lessor Agreements

Direct Financing Leases

The **Department of Transportation** (Primary Government) maintains leases classified as direct financing leases. The State leases heavy equipment and machinery to counties within the State. No interest or executory costs are charged, and lease terms are determined by the depreciation schedules published by the American Association of State Highway Transportation Officials. Title to this equipment passes to the counties at the end of the lease term. The Department of Transportation also leases railroad lines within the State to the AT&L Railroad Company and the Oklahoma, Kansas, and Texas Railroad Company with lease terms ending in 2014 and 2011, respectively. No interest or executory costs are charged, and the leases include bargain purchase options. The unguaranteed residual values of the machinery and equipment, and railroad lines are not estimated by the State. Unearned income and allowances for uncollectibles are not computed, and contingent rentals are not a part of any lease. The total minimum lease payments to be received in future years is $40,447,080, which is also the net investment in direct financing leases at June 30, 1995.

The **Oklahoma Environmental Finance Authority** (Proprietary Component Unit) has non-current assets consisting of net investment in direct financing leases. The following schedule lists the components of the net investment in direct financing leases as of June 30, 1995 (expressed in thousands).

Total minimum lease payments to be received - Gross investment in financing leases	$ 68,666
Less: Cost of investments and unearned income	26,876
Net investment in direct financing leases	$ 41,790

At June 30, 1995, minimum lease payments receivable for the State as a whole for each of the five succeeding fiscal years follows (expressed in thousands).

	1996	1997	1998	1999	2000
Primary Government	$ 4,912	$ 4,661	$ 3,933	$ 3,328	$ 2,611
Proprietary Component Unit	3,786	3,655	3,613	5,733	2,672
Total	$ 8,698	$ 8,316	$ 7,546	$ 9,061	$ 5,283

Operating Leases

Operating leases maintained by state agencies consist primarily of building space and land owned by the State. The following schedule presents minimum future rentals receivable from operating leases (expressed in thousands).

1996	1997	1998	1999	2000	Total
$ 299	$ 66	$ 16	$ 2	$ 2	$ 385

In addition, the leasing operations of the **Commissioners of the Land Office** consist of leasing approximately 800,000 acres of land principally for agricultural purposes. The lease terms are principally for five-year periods. The lease year is on a calendar year basis with rents prepaid one year in advance. The annual rental amount is determined based on the maximum amount bid by the lessee.

Note 11. Long Term Obligations-Primary Government, Governmental Funds

Long term obligations at June 30, 1995, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Authorized Unissued	Beginning Balance	Additions	Reductions	Ending Balance
General Long-Term Debt Account Group								
General Obligation Bonds Payable from Tax Revenue:								
Institutional Bldg 1968D	1973	4.80-5.00%	1995	$ -	$ 1,115	$ -	$ 1,115	$ -
Refunding Series R	1977	4.20-4.65%	1996	-	3,920	-	1,930	1,990
Institutional Bldg 1992A	1993	4.25-5.20%	2018	-	250,000	-	4,215	245,785
Institutional Bldg 1992B	1993	4.15-6.60%	2013	-	100,000	-	3,320	96,680
Total				-	355,035	-	10,580	344,455
Revenue Bonds Payable from Lease Rentals:								
OCIA Series A of 1972	1972	4.50-6.50%	1994	-	130	-	130	-
OCIA Series A of 1973	1973	4.00-6.00%	1994	-	305	-	270	35
OCIA Series A of 1986	1986	9.00%	2001	-	4,072	-	181	3,891
OCIA Series A of 1988	1988	7.00%	1998	-	1,432	-	282	1,150
OCIA Series A of 1994	1994	3.00-4.65%	2003	-	8,175	-	770	7,405
OCIA Series B of 1994	1994	4.85-7.15%	2009	-	-	17,500	-	17,500
Tourism 1990	1990	5.95%	1999	-	3,245	-	485	2,760
Tourism 1994	1994	5.30-7.20%	2011	-	5,250	-	-	5,250
Department of Corrections	-	-	-	1,500	-	-	-	-
MTRA Series 1995	1995	5.38-7.45%	2015	850	-	1,090	-	1,090
Series 1986A (ODFA)	1986	4.50-7.75%	1996	-	1,900	-	295	1,605
DHS Series 1987A (ODFA)	1987	5.50-7.40%	1995	-	405	-	405	-
DHS -Tulsa Co 1990 (ODFA)	1990	6.15-7.00%	2000	-	1,460	-	170	1,290
Total				2,350	26,374	18,590	2,988	41,976
Certificates of Participation:								
DHS 1988A (ODFA)	1990	6.30-7.30%	2000	-	1,165	-	160	1,005
Election Bd 1989A (ODFA)	1989	5.50-7.25%	1999	-	9,260	-	1,480	7,780
Corrections 1990	1990	6.10-6.40%	1994	-	280	-	280	-
Mental Health 1993 Refunding	1993	3.10-4.20%	1996	-	790	-	385	405
Mental Health 1993	1993	4.50-6.90%	2003	-	1,085	-	85	1,000
Mental Health 1993A	1993	3.60-5.10%	2004	-	2,725	-	-	2,725
State Finance 1994	1993	3.00-3.80%	1996	-	1,440	-	430	1,010
DHS Series 1994	1994	4.60-5.10%	1997	-	-	875	-	875
Military Dept 1994	1994	5.25-6.50%	2005	-	-	2,800	-	2,800
Total				-	16,754	3,675	2,820	17,600
Other General Long-Term Obligations:								
Capital Leases				-	11,850	1,913	* 2,734	11,029
Compensated Absences				-	86,679	5,092	-	91,771
Other Claims and Judgements				-	102,204	15,373	11,607	105,970
Total				-	200,733	22,378	14,341	208,770
Total General Long-Term Debt Account Group				$ 2,350	$ 598,887	$ 44,643	$ 30,729	$ 612,801

* $151 of this amount represents a deletion of a capital lease rather than capital lease payrments.

The following table presents annual debt service require ments for long-term debt outstanding at June 30, 1995 (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
General Long-Term Debt Account Group							
General Obligation Bonds:							
Institutional Bldg 1968D	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Refunding Series R	2,082	-	-	-	-	-	2,082
Institutional Bldg 1992A	16,363	16,340	16,335	16,341	16,358	362,667	444,404
Institutional Bldg 1992B	8,285	8,193	8,092	7,993	7,937	107,735	148,235
	26,730	24,533	24,427	24,334	24,295	470,402	594,721
Interest	16,930	16,418	15,982	15,529	15,105	170,302	250,266
Total	9,800	8,115	8,445	8,805	9,190	300,100	344,455
Revenue Bonds:							
OCIA Series A of 1972	-	-	-	-	-	-	-
OCIA Series A of 1973	35	-	-	-	-	-	35
OCIA Series A of 1986	477	477	477	476	476	3,178	5,561
OCIA Series A of 1988	380	382	384	193	-	-	1,339
OCIA Series A of 1994	1,119	1,117	1,116	1,117	1,115	3,345	8,929
OCIA Series B of 1994	1,840	1,888	1,885	1,883	1,887	18,859	28,242
Tourism 1990	696	692	692	1,194	-	-	3,274
Tourism 1994	345	435	585	582	582	6,423	8,952
Department of Corrections	-	-	-	-	-	-	-
MTRA Series 1995	128	211	211	206	211	1,415	2,382
Series 1986A (ODFA)	1,711	-	-	-	-	-	1,711
DHS Series 1987A (ODFA)	-	-	-	-	-	-	-
DHS-Tulsa Co 1990 (ODFA)	273	270	267	269	269	268	1,616
	7,004	5,472	5,617	5,920	4,540	33,488	62,041
Interest	3,123	2,342	2,169	1,974	1,743	8,714	20,065
Total	3,881	3,130	3,448	3,946	2,797	24,774	41,976
Certificates of Participation:							
DHS 1988A (ODFA)	240	238	239	240	238	-	1,195
Election Bd 1989A (ODFA)	2,062	2,086	2,030	2,000	994	-	9,172
Corrections 1990	-	-	-	-	-	-	-
Mental Health 1993 Refunding	414	-	-	-	-	-	414
Mental Health 1993	149	144	144	144	147	588	1,316
Mental Health 1993A	329	346	351	346	345	1,705	3,422
State Finance 1994	509	540	-	-	-	-	1,049
DHS Series 1994	311	313	318	-	-	-	942
Military Dept 1994	170	355	369	367	363	2,355	3,979
	4,184	4,022	3,451	3,097	2,087	4,648	21,489
Interest	994	817	636	467	287	688	3,889
Total	3,190	3,205	2,815	2,630	1,800	3,960	17,600
Other General Long-Term Obligations:							
Capital Leases	2,423	2,303	1,744	1,531	1,990	1,038	11,029
Compensated Absences *	6,500	6,500	6,500	6,500	6,500	59,271	91,771
Other Claims and Judgements *	23,698	20,568	20,568	20,568	20,568	-	105,970
Total	32,621	29,371	28,812	28,599	29,058	60,309	208,770
Total General Long-Term Debt Account Group	$ 49,492	$ 43,821	$ 43,520	$ 43,980	$ 42,845	$ 389,143	$ 612,801

* Payment schedule is based on estimates.

A. General Obligation Bonds

General obligation bonds, administered by the State Treasurer, are authorized and issued primarily to provide resources for State-owned capital improvements, including office buildings for state agencies. The State has pledged 100% of cigarette taxes collected under these bond issues. General obligation bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the bonds.

B. Revenue Bonds

The **Oklahoma Capitol Improvement Authority** (OCIA) has five outstanding series of building bonds to construct and equip state office buildings. Principal and interest payments on these bond issues are paid from rents collected from the various state and federal agencies which use the office buildings constructed with the bond proceeds.

The **Oklahoma Tourism and Recreation Department** has two revenue bond issues for the financing of capital projects of the Parks Division. The revenue generated by fees from the Parks Division are used to meet the bond obligation. Additional security is provided by a special "Bond Reserve Fund", which is maintained in the amount of $500,000 and $525,000 for the 1990 Series and 1994 Series, respectively.

The **Medical Technology and Research Authority** (MTRA) issued revenue bonds for the financing of the construction of a child day care center and associated playground and parking space near the campus of Oklahoma Health Sciences Center, Oklahoma City, Oklahoma. Principal and interest payments on this bond issue are paid from rents collected from the operation of the facility. The bonds are limited and special obligations of MTRA. They are secured by a mortgage covering the building site and facility, a security interest covering all equipment, fixtures, chattels, building materials, supplies, inventory, gross revenues derived from the operation of the facility and other items of tangible and intangible personal property.

The **Oklahoma Development Finance Authority** issued lease revenue bonds to benefit lease financing for the Department of Human Services. The actual lease payments are divided and remitted on a "pass through" basis to individual investors, usually by a trustee.

C. Certificates of Participation

The State has lease purchase agreements funded through certificates of participation. These leases are for the purchase of equipment and facilities. Third-party leasing companies assigned their interest in the lease to underwriters which issued certificates for the funding of these obligations. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement.

Leased buildings and equipment financed by certificates of participation in the General Fixed Asset Account Group at June 30, 1995, include the following (expressed in thousands).

Equipment	$	23,705
Buildings		1,670
Total	$	25,375

D. **Capital Leases**

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. Capital lease obligations are reported for those leases whose annual payments equal $10,000 or more.

The following schedule presents, by fiscal year, future minimum lease payments in the General Long Term Debt Account Group, as of June 30, 1995 (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
	$ 3,271	$ 2,978	$ 2,208	$ 1,861	$ 2,182	$ 1,279	$ 13,779
Less: Executory costs included in minimum lease payments							691
Net Minumum Lease Payments							13,088
Less: Interest							2,059
Present Value of Minimum Lease Payments							$ 11,029

Leased buildings and equipment under capital leases in the General Fixed Asset Account Group at June 30, 1995, include the following (expressed in thousands).

Equipment	$ 5,698
Buildings	21,691
Total	$ 27,389

E. **Other Claims and Judgements**

Included in other claims and judgements are permanent total and permanent partial awards payable after December 31, 1994, from the Special Indemnity Fund and Risk Management liabilities that will not be paid with currently expendable available financial resources.

Note 12. Long Term Obligations - Primary Government, Proprietary Fund

The **Oklahoma Water Resources Board** (the Board) has issued five series of revenue bonds. These bonds are used to provide monies to implement its statewide financial assistance programs to make loans to local government units in the State to be utilized to provide for the acquisition, development, and utilization of storage and control facilities for water and sewage systems.

Bonds payable at June 30, 1995, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Authorized Unissued	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds Payable from User Fees:								
Water Resources Board								
1985 - 1994 Issues	1985-1994	2.55-14.00%	2010- 2023					
Total Before Discounts				$ -	$ 203,690	$ -	$ 57,225	$ 146,465
Less: Bond Discounts				-	607	-	23	584
Total Bonds Payable Net of Discounts				$ -	$ 203,083	$ -	$ 57,202	$ 145,881

The following table presents estimated annual debt service require ments for bonds payable outstanding at June 30, 1995 (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
Revenue Bonds Payable:							
Water Resources Board 1985 - 1994B Issues Total Principal and Interest	$ 9,597	$ 15,174	$ 11,702	$ 13,219	$ 11,853	$ 185,772	$ 247,317
Less: Interest	6,957	6,714	6,402	6,144	5,903	68,732	100,852
Total Principal	$ 2,640	$ 8,460	$ 5,300	$ 7,075	$ 5,950	$ 117,040	$ 146,465

Provisions of the 1985 Series bond indenture specified that on June 1, 1995, any portion of the bond proceeds not used to originate loans to local entities would be used to redeem 1985 Series outstanding bonds. Such redemption was made during fiscal year 1995 at face value plus accrued interest and in inverse order of maturity.

During fiscal year 1994, the Board defeased a portion of its 1989 Series Bonds. The outstanding balance of the defeased bonds at June 30, 1995, was $12,710,000.

Note 13. Long Term Obligations - Component Units, Proprietary Funds

Bonds payable at June 30, 1995, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Authorized Unissued	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds Payable from User Fees:								
Industrial Finance Authority	1961-1989	3.38-6.50%	2022	$ 37,061	$ 67,320	$ -	$ 12,235	$ 55,085
Revenue Bonds Payable from User Fees:								
Student Loan Authority	1992-1994	4.15-6.70%	2020	-	41,680	32,200	2,010	71,870
Environmental Finance Auth.	1973-1977	5.60-7.30%	2008	-	46,325	-	975	45,350
Housing Finance Agency	1980-1994	4.25-10.43%	2025	-	603,140	146,639	203,638	546,141
Turnpike Authority	1989, 1992	3.15-7.88%	2022	-	691,084	-	4,400	686,684
Grand River Dam Authority	1987, 1993	3.90-8.00%	2013	-	1,130,510	-	28,670	1,101,840
Municipal Power Authority	1985-1994	2.75-8.60%	2028	-	340,250	150,130	92,180	398,200
Total Before Discounts/Deferrals				37,061	2,920,309	328,969	344,108	2,905,170
Less: Bond Discounts				-	66,556	3,861	6,794	63,623
Net Deferred Debit on Refundings				-	24,283	130,719	13,530	141,472
Total Bonds Payable Net of Discounts/Deferrals				$ 37,061	$ 2,829,470	$ 194,389	$ 323,784	$ 2,700,075

The following table presents annual principal and interest payments (principal payments only for the revenue bonds of Oklahoma Housing Finance Agency) for bonds payable outstanding at June 30, 1995, (September 30, 1994, for Oklahoma Housing Finance Agency and December 31, 1994, for Oklahoma Turnpike Authority, and Grand River Dam Authority) (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
General Obligation Bonds:							
Industrial Finance Authority	$ 5,205	$ 6,120	$ 3,019	$ 3,019	$ 3,019	$ 107,730	$ 128,112
Revenue Bonds Payable:							
Student Loan Authority	5,117	9,247	8,718	7,571	6,635	76,437	113,725
Environmental Finance Authority	2,392	3,685	3,645	5,827	2,684	52,769	71,002
Turnpike Authority	51,651	51,653	51,652	51,648	51,649	1,179,156	1,437,409
Grand River Dam Authority	93,788	95,417	96,125	96,003	95,992	1,286,549	1,763,874
Municipal Power Authority	25,259	25,728	25,698	28,313	28,284	670,684	803,966
Total Principal and Interest	183,412	191,850	188,857	192,381	188,263	3,373,325	4,318,088
Less: Interest	131,527	131,110	126,707	123,266	119,843	1,326,606	1,959,059
Subtotal: Principal	51,885	60,740	62,150	69,115	68,420	2,046,719	2,359,029
Housing Finance Agency	4,039	20,789	4,970	6,836	5,563	503,944	546,141
Total Principal	$ 55,924	$ 81,529	$ 67,120	$ 75,951	$ 73,983	$ 2,550,663	$ 2,905,170

A. **General Obligation Bonds**

Oklahoma Industrial Finance Authority (OIFA) has issued fifteen series of general obligation bonds. These bonds are issued for the funding of industrial finance loans to encourage business development within the State. All revenues arising from the net proceeds from repayment of industrial finance loans and interest received thereon are pledged under these bond issues. In addition, these general obligation bonds are backed by the full faith and credit of the State.

B. **Revenue Bonds**

The **Oklahoma Student Loan Authority** (SLA) has issued four series of revenue bonds. The bonds are issued for the purpose of funding student loans. All bonds payable are primarily secured by the student loans receivable, related accrued interest and by the amounts on deposit in the accounts established under the respective bond resolution.

The **Oklahoma Housing Finance Agency** (OHFA) has issued 31 series of revenue bonds with an original issue amount of $812,494,000. The net proceeds of these bonds are used to provide financing for qualifying residences, provide interim and permanent financing for multifamily construction projects, and establish debt-service reserves as required by the various trust indentures.

During the year ended September 30, 1994, OHFA issued $49,344,000 in the 1993 Series A, Series B and Series A Subordinate (taxable) Single Family Mortgage Revenue Bonds, and $39,370,000 in the 1994 Series B Single Family Mortgage Revenue Bonds. These bonds were issued to redeem 1983 Series A and 1983 Series C Single Family Mortgage Revenue Bonds and 1984 Series A Single Family Mortgage Revenue Bonds. These redemptions resulted in the recognition of an extraordinary accounting loss on redemption of bonds of $785,808 for the 1983 Series A Bonds, $1,004,846 for the 1983 Series C Bonds, and $1,110,258 for the 1984 Series A Bonds for the year ended September 30, 1994. OHFA in effect, reduced its aggregate debt service payments by $128 million over the next 21 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $42 million.

The **Oklahoma Turnpike Authority** (OTA) has issued five series of revenue bonds with an original issue amount of $1,217,524,000. The bonds are issued for the purpose of financing capital improvements and new projects relating to the State's turnpike system and are financed primarily by tolls assessed on users of the turnpikes.

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and arbitrage rebate liability on issuers of tax-exempt debt. OTA's cumulative arbitrage rebate liability for the year ended December 31, 1994, is approximately $1,553,000.

The **Grand River Dam Authority** (GRDA) has issued two series of revenue bonds with an original issue amount of $1,917,625,000. The bonds were issued to advance refund all of GRDA's previously issued acquisition and construction indebtedness.

The **Oklahoma Municipal Power Authority** (OMPA) has issued nine series of revenue bonds. The bonds are issued to finance portions of OMPA's acquisition and construction activities. The bonds are payable from and collateralized by a pledge of and security interest in the proceeds of the sale of the bonds, the revenues of OMPA, and assets in the funds established by the respective bond resolutions. Neither the State of Oklahoma nor any political subdivision thereof is obligated to pay principal or interest on the bonds. OMPA does not have any taxing authority.

C. **Defeased Bonds**

In prior years, proprietary component units have defeased bonds by placing assets in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trusts assets and the liability for the defeased bonds are not included in the accompanying financial statements. The following defeased bonds were outstanding at June 30, 1995 (December 31, 1994, for OTA, GRDA, and OMPA) (expressed in thousands).

General Obligation Bonds	Revenue Bonds		
OIFA	OTA	GRDA	OMPA
$ 13,625	$ 640,195	$ 1,036,402	$ 448,403

D. **Notes Payable**

Notes payable at June 30, 1995 (September 30, 1994, for the Oklahoma Housing Finance Agency) and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Original Amount	Beginning Balance	Additions	Reductions	Ending Balance
Student Loan Authority	1987-1993	5.41-6.81%	1999	$ 150,000	$ 47,449	$ 15,582	$ 29,695	$ 33,336
Housing Finance Agency	1984	9.00%	1994		714	-	714	-
Environmental Finance Authority	1976	7.50%	1996		167	-	84	83
Total					$ 48,330	$ 15,582	$ 30,493	33,419
Less: Current Portion								19,344
Total Noncurrent Notes Payable								$ 14,075

The following table presents annual debt service requirements for notes payable outstanding at June 30, 1995 (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
Student Loan Authority	$ 20,892	$ 9,316	$ 391	$ 391	$ 6,107	$ -	$ 37,097
Environmental Finance Authority	86	-	-	-	-	-	86
Total Principal and Interest	20,978	9,316	391	391	6,107	-	37,183
Less: Interest	1,634	1,216	391	391	132	-	3,764
Total Principal	$ 19,344	$ 8,100	$ -	$ -	$ 5,975	$ -	$ 33,419

Pursuant to financing agreements and loan sale agreements, the Student Loan Marketing Association (SMLA) will purchase certain SLS, PLUS, and HEAL loans when they reach repayment status. The Student Loan Authority (SLA) has an obligation to repurchase the loans should SLMA's collection efforts determine any SLA representations or warranties with regards to the loans to be materially incorrect. The amount of loans repurchased by SLA was approximately $40,000 for the fiscal year ended June 30, 1995. The total amount of loans sold to SLMA was approximately $3,300,000 for the year ended June 30, 1995.

E. **Capital Leases**

The State's proprietary component units have entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The following schedule presents, by fiscal year, future minimum lease payments in the proprietary component units as of the funds' fiscal year ends (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
	$ 1 ,861	$ 1,809	$ 1,554	$ 1,554	$ 1,031	$ 2,990	$ 10,799
Less: Interest							2,242
Present Value of Minimum Lease Payments							$ 8,557

Capital lease obligations at the component units' year ends, and changes for the fiscal years then ended are as follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Lease Obligations	$ 6,122	$ 3,493	$ 1,058	$ 8,557

The following is property under capital leases at the component unit s' respective year ends (expressed in thousands).

Facilities and Equipment	$ 18,774
Less: Accumulated Depreciation	11,617
Net	$ 7,157

Note 14. Long Term Obligations - Component Unit, Higher Education Funds

Long term obligations at June 30, 1995, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Issue Dates	Interest Rates	Maturity Through	Authorized Unissued	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds	1971-1989	0.05-10.00%	1999	-	$ 6,475	$ -	$ 1,325	$ 5,150
Revenue Bonds	1959-1995	3.00-12.00%	2023	26,675	125,565	5,255	6,007	124,813
Certificates of Participation	1991-1993	3.75-6.50%	2009	-	2,643	-	235	2,408
Notes Payable					1,047	-	117	930

The following table presents annual principal and interest payments applicable to long-term debt outstanding at June 30, 1995 (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
General Obligation Bonds	$ 1,432	$ 1,356	$ 1,255	$ 1,300	$ -	$ -	$ 5,343
Less: Interest	107	81	5	-	-	-	193
Total Principal	$ 1,325	$ 1,275	$ 1,250	$ 1,300	$ -	$ -	$ 5,150
Revenue Bonds	$ 12,988	$ 13,060	$ 12,803	$ 12,765	$ 13,130	$ 135,444	$ 200,190
Less: Interest	6,976	6,602	6,230	5,842	5,345	44,382	75,377
Total Principal	$ 6,012	$ 6,458	$ 6,573	$ 6,923	$ 7,785	$ 91,062	$ 124,813
Certificates of Participation	$ 394	$ 392	$ 393	$ 390	$ 391	$ 1,401	$ 3,361
Less: Interest	159	143	124	105	84	338	953
Total Principal	$ 235	$ 249	$ 269	$ 285	$ 307	$ 1,063	$ 2,408
Notes Payable	$ 220	$ 220	$ 220	$ 220	$ 220	$ 158	$ 1,258
Less: Interest	92	78	62	44	24	28	328
Total Principal	$ 128	$ 142	$ 158	$ 176	$ 196	$ 130	$ 930

A. **General Obligation Bonds**

Rose State College Technical Area Education District and Tulsa Community College Area School District #18 have authorized and issued three series of general obligation bonds with an original issue amount of $13,050,000. These bonds were issued for the financing of buildings, equipment, and related capital improvements. Ad valorem taxes levied upon taxable property within their respective specific areas have been pledged to retire these general obligation bonds.

B. **Revenue Bonds**

Nineteen of the State's colleges and universities have authorized and issued 46 series of revenue bonds with an original issue amount of $528,171,000. These bonds were issued for the acquisition of student housing and other facilities. Student fees, revenues produced by the facilities constucted, and other revenues collateralize the revenue bonds.

Revenue bonds were defeased by Oklahoma State University during 1995. The University advance refunded its Housing System Revenue Bonds, Series 1987A, by placing proceeds of the Housing System Refunding Revenue Bonds, Series 1994A, in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts and defeased bonds are not included in the accompanying financial statements. At June 30, 1995, the balance of the defeased 1987A Series bonds was $1,540,000. The University advance refunded the 1987A Series bonds to reduce its total debt service payments over the next 10 years by approximately $168,000 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of approximately $91,000.

Other colleges and universities have defeased revenue bonds in prior years by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trusts' assets and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1995, $13,205,000 of bonds defeased in prior years were outstanding.

C. **Certificates of Participation**

Southeastern Oklahoma State University and University of Central Oklahoma were parties to lease purchase agreements during fiscal year 1995 funded through certificates of participation. These leases are for the purchase of energy saving equipment. Third-party leasing companies have assigned their interest in the lease to underwriters who have issued certificates for the funding of these obligations. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement.

Investment in fixed assets at June 30, 1995, includes $2,404,000 of equipment funded through these certificates of participation.

D. **Notes Payable**

Oklahoma State University and Carl Albert State College each entered into a note payable to fund the construction of facilities which have since been leased. The lease payments and the facilities constructed secure the notes.

E. **Capital Leases**

The Higher Education Component Unit has entered into agreements to lease various facilities and equipment. Such agreements are reported as capital lease obligations.

The following presents, by fiscal year, future minimum lease payments in the Higher Education Component Unit as of June 30, 1995 (expressed in thousands).

	1996	1997	1998	1999	2000	Maturity	Total
	$ 2,019	$ 2,105	$ 1,565	$ 1,202	$ 828	$ 2,559	$ 10,278
Less: Interest							1,698
Present Value of Minimum Lease Payments							$ 8,580

Capital lease obligations at June 30, 1995, and changes for the fiscal year then ended are as follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance
Capital Lease Obligations	$ 3,629	$ 6,850	$ 1,899	$ 8,580

Leased equipment under capital leases in investment in fixed assets at June 30, 1995, included the following (expressed in thousands).

Facilities and Equipment	$ 20,223
Less: Accumulated Depreciation	9,139
Net	$ 11,084

Note 15. Costs to be Recovered from Future Revenues

Certain items included in operating costs of **Grand River Dam Authority**, an unregulated enterprise, are recovered through rates set by the Board of Directors. Recognition of these costs, primarily depreciation on debt funded fixed assets, amortization of debt discount and expense, and amortization of losses on advance refunding of long-term debt, is deferred to the extent that such costs will be included in rates charged in future years.

The **Oklahoma Municipal Power Authority** (OMPA) enters into power sales contracts with participating municipalities that provide for billings to those municipalities for output and services of the projects. Revenues from these contracts provide for payment of current operating and maintenance expenses (excluding depreciation and amortization), as well as payment of scheduled debt principal and interest, and deposits into certain funds as prescribed in the bond resolutions. For financial reporting purposes, OMPA currently recognizes depreciation of assets financed by bond principal and amortization expense. The difference between current expenses and the amounts currently billed under the terms of the power sales contracts are deferred to future periods in which these amounts will be recovered through revenues.

Note 16. Deferred Compensation Plan

The State offers its employees a Deferred Compensation Plan (Plan) as authorized by Section 457 of the Internal Revenue Code of 1954, and as amended by the Tax Reform Act of 1986 . The Plan is available to all full-time State employees, as well as any elected officials receiving a salary from the State. Participants may defer until future years up to the lesser of 25% of their gross taxable income as defined by Plan documents or $7,500 per year, with a minimum contribution of $25 per month. The participants may direct investment of such funds in available investment options offered by the Plan. All interest, dividends and administrative fees are allocated to participants' accounts.

The Plan offers a catch-up program to participants, which allows them to defer up to $15,000 annually for the three years prior to their year of retirement. The additional contribution, in excess of the normal maximum to the Plan, is accounted for as catch-up contributions for the years in which the participant did not participate in the Plan or was not contributing at the maximum allowable level. To be eligible for the catch-up program, the participant must be within three years of retirement from Oklahoma Public Employees Retirement System with no reduced benefits.

Deferred compensation benefits are paid out to participants or beneficiary upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments, at the option of the participant in accordance with Plan provisions.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), and are subject to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant. During 1995 and 1994, some Plan assets were used to pay participant deferred compensation benefits and certain administrative fees charged by the investment carriers. Such administrative fees are charged to individual participant balances.

It is the opinion of Plan management that the State has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. Plan management believes that it is unlikely that the State will use the assets of the Plan to satisfy the claims of the State's general creditors in the future.

Note 17. Nonrecourse Debt, Notes Receivable, and Funds in Trust of the Oklahoma Development Finance Authority

The Oklahoma Development Finance Authority (ODFA) holds notes receivable and trust investments in amounts equal to the long-term financings. The financing agreements are structured such that the debt is to be repaid solely from the revenues derived from the related facilities leased or acquired, or from the disposition of collateral. As of June 30, 1995, the aggregate amount of these financings is approximately $104,000,000 for all Public and Private Programs. The financings are not the general obligations of ODFA, and it is the opinion of the ODFA's management and its legal counsel that, in the event of default by a borrower, ODFA has no responsibility for repayment of such financings. Accordingly, the nonrecourse debt and the related notes receivable and trust investments have been excluded from the financial statements.

Under the Constitution of the State of Oklahoma, ODFA may issue bonds, to be known as Credit Enhancement Reserve Fund General Obligation Bonds, in a total principal amount of $100,000,000 for the sole purpose of generating monies to be deposited to the Fund if there is insufficient assets to meet insurance obligations. The ODFA can provide insurance for payment of the principal and interest on authority revenue bonds or other financial obligations under certain conditions. As of June 30, 1995, there were approximately $13,700,000 of outstanding financial obligations insured by the ODFA. Approximately $4,400,000 of these obligations were more than 90 days delinquent as of June 30, 1995. ODFA has accrued a reserve for loan losses of approximately $4,200,000 to cover potential losses from outstanding financial obligations insured by ODFA. Through June 30, 1995, there have been no Oklahoma Credit Enhancement Reserve Fund General Obligation Bond s issued.

Note 18. Beginning Fund Balance Adjustments

During fiscal 1995, the State implemented a new accounting standard for the recognition of taxpayer-assessed tax revenue. This new standard established by the Governmental Accounting Standards Board Statement 22 (GASB 22), *Accounting for Taxpayer-Assessed Tax Revenue in Governmental Funds*, requires the recognition of taxpayer-assessed tax revenue on a modified accrual basis. The State now recognizes the taxes collected by merchants at June 30, as a receivable if collected within sixty (60) days. Previously, only taxes due to the State by June 30 were recognized as revenue. Beginning Fund Balance for the governmental funds have been increased to reflect June 30, 1994 and 1993, sales taxes receivable of $94,182,000 and $87,256,000, respectively.

The following schedule reconciles June 30, 1994 , fund equity as previously reported, to beginning fund equity as restated to include the adoption of new pronouncements and other changes (expressed in thousands).

	General	Capital Projects	Enterprise	Trust and Agency	Proprietary Component Units	Higher Education Component Unit
June 30, 1994, fund equity, as previously reported	$ 967,643	$ 283,141	$ 24,670	$ 7,968,489	$ 424,984	$ 1,900,018
Prior period adjustments:						
To record implementation of GASB 22	94,182	-	-	-	-	-
Correction of Error	(248)	-	-	-	-	(2,606)
Other	(17)	-	-	2	-	-
June 30, 1994, fund equity, as restated	$ 1,061,560	$ 283,141	$ 24,670	$ 7,968,491	$ 424,984	$ 1,897,412

The following schedule reconciles June 30, 1993 , fund equity as previously reported, to beginning fund equity as restated to include the adoption of new pronouncements and other changes (expressed in thousands).

	General	Capital Projects	Enterprise	Trust and Agency	Proprietary Component Units	Higher Education Component Unit
June 30, 1993, fund equity, as previously reported	$ 986,346	$ 241,319	$ 21,347	$ 7,372,218	$ 466,248	$ 1,755,408
Prior period adjustments:						
To record implementation of GASB 22	87,256	-	-	-	-	-
June 30, 1993, fund equity, as restated	$ 1,073,602	$ 241,319	$ 21,347	$ 7,372,218	$ 466,248	$ 1,755,408

Note 19. Condensed Financial Statement Information for Discretely Presented Proprietary Component Units

Condensed financial statement information for the discretely presented proprietary component units for the fiscal year ended June 30, 1995 (unless a different fiscal year is indicated), follows (expressed in thousands). Descriptions of and goods or services provided by each component unit are disclosed in Item A of Note 1.

	Oklahoma Industrial Finance Authority	State Insurance Fund (12-31-94 Fiscal Year)	State and Education Empl. Group Insurance Bd.	Oklahoma Student Loan Authority	University Hospitals Authority	Oklahoma Development Finance Authority
Operating Revenue	$ 4,499	$ 289,945	$ 231,883	$ 8,731	$ 181,605	$ 376
Operating Expenses						
Depreciation	114	1,341	183	211	13,885	10
Other	3,909	350,439	171,176	8,267	202,875	532
Operating Income (Loss)	476	(61,835)	60,524	253	(35,155)	(166)
Operating Transfers In (Out)	-	-	-	-	26,477	-
Nonoperating Revenues (Expenses)	(332)	36,540	20,309	1,593	1,455	572
Deferred Costs	-	-	-	-	-	-
Net Income (Loss)	144	(25,295)	80,833	1,846	(7,223)	406
Current Assets	17,164	665,567	230,665	15,551	69,283	1,587
Current Liabilities	3,210	713,671	68,012	23,263	24,904	37
Net Working Capital	13,954	(48,104)	162,653	(7,712)	44,379	1,550
Total Assets	56,367	672,154	231,360	137,474	210,582	5,835
Total Liabilities	56,210	713,671	68,012	107,208	30,954	4,379
Fund Equity	157	(41,517)	163,348	30,266	179,628	1,456
Long-Term Liabilities	53,000	-	-	83,945	6,050	4,342
Fixed Assets - Beginning of Year	179	9,178	1,486	725	267,659	95
Additions	6	2,817	13	31	12,638	12
Deletions	-	(101)	-	(273)	(7,303)	-
Fixed Assets - End of Year	$ 185	$ 11,894	$ 1,499	$ 483	$ 272,994	$ 107

	Oklahoma Environmental Finance Authority	Oklahoma Housing Finance Agency (9-30-94 Fiscal Year)	Oklahoma Turnpike Authority (12-31-94 Fiscal Year)	Grand River Dam Authority (12-31-94 Fiscal Year)	Oklahoma Municipal Power Authority (12-31-94 Fiscal Year)	Total
Operating Revenue	$ 2,797	$ 48,326	$ 98,697	$ 165,835	$ 71,030	$ 1,103,724
Operating Expenses						
Depreciation	-	94	36,534	26,748	4,845	83,965
Other	2,772	53,036	33,117	84,315	53,262	963,700
Operating Income (Loss)	25	(4,804)	29,046	54,772	12,923	56,059
Operating Transfers In (Out)	-	-	-	-	-	26,477
Nonoperating Revenues (Expenses)	(25)	2,584	(31,805)	(60,332)	(16,767)	(46,208)
Deferred Costs	-	-	-	6,887	5,152	12,039
Net Income (Loss)	-	(2,220)	(2,759)	1,327	1,308	48,367
Current Assets	2	97,795	81,486	110,094	18,665	1,307,859
Current Liabilities	1,421	11,642	43,598	48,612	19,165	957,535
Net Working Capital	(1,419)	86,153	37,888	61,482	(500)	350,324
Total Assets	45,595	578,215	760,477	1,025,666	416,791	4,140,516
Total Liabilities	45,521	553,685	714,802	999,451	405,718	3,699,611
Fund Equity	74	24,530	45,675	26,215	11,073	440,905
Long-Term Liabilities	44,100	542,043	671,204	950,839	386,553	2,742,076
Fixed Assets - Beginning of Year	-	1,051	956,140	891,295	175,432	2,303,240
Additions	-	99	36,184	29,884	14,918	96,602
Deletions	-	-	(188)	(29,435)	(313)	(37,613)
Fixed Assets - End of Year	$ -	$ 1,150	$ 992,136	$ 891,744	$ 190,037	$ 2,362,229

The **Oklahoma Housing Finance Agency** (OHFA) received Federal financial assistance totaling $31,228,098 in housing assistance payments during the year ended September 30, 1994, under the Housing Assistance Payments Program. This Federal assistance was netted against applicable Federal expenditures on the financial statements. Therefore, no Federal revenue is presented for the OHFA operating statement.

Note 20. Retirement and Pension Systems

A. General Description of the Retirement Systems

The State of Oklahoma administers six Public Employee Retirement Systems (PERS): Oklahoma Firefighters Pension and Retirement System (OFPRS), Oklahoma Law Enforcement Retirement System (OLERS), Oklahoma Public Employees Retirement System (OPERS), Uniform Retirement

and the Teachers' Retirement System of Oklahoma (TRS). The Wildlife Conservation Commission and Oklahoma Housing Finance Agency have Retirement Systems that are privately administered. Information pertinent to each system is stated below.

OFPRS, OLERS, OPERS, OPPRS, AND TRS are cost-sharing multiple-employer defined benefit retirement systems. URSJJ is a single-employer, cost-sharing defined benefit retirement system. Pension benefit provisions for all systems have been established by statute.

At June 30, 1995, each Plan's membership consisted of:

	OFPRS	OLERS	OPERS	URSJJ	OPPRS	TRS
Retirees and Beneficiaries currently receiving benefits	6,523	704	17,207	149	1,582	29,007
Terminated Vested Participants	368	24	3,563	17	31	2,532
Deferred Option Plan Participants	489	168	-	-	362	-
Active Participants	9,346	998	43,987	246	3,478	79,044
Total	16,726	1,894	64,757	412	5,453	110,583*

* In addition, TRS had 6,583 nonvested inactive participants at June 30, 1995, who are entitled to a refund of their accumulated contributions. Such amounts are included in the determination of the pension benefit obligation and are accounted for by the System in the Suspense Fund which amounted to approximately $8,216,000 at June 30, 1995.

B. Membership and Benefit Provisions

Oklahoma Firefighters Pension and Retirement System (OFPRS) provides defined retirement benefits based on members' final average salary, age and term of service. In addition, the retirement program provides for certain death and disability benefits. Retirement provisions are as follows:

- Full-time firefighters become 100% vested in retirement benefits earned to date after 10 years of credited service. Normal retirement is attained upon completing 20 years of service. The normal retirement benefit is equal to 2.5% of the member's final average compensation for each year of credited service, not to exceed 30 years. Final average compensation is defined as the average base salary over the highest 30 consecutive months of the last 60 months of participating service. For volunteer firefighters, the monthly pension benefit is $5.46 for each year of credited service, not to exceed 30 years.

- Upon withdrawal from OFPRS, members' contributions are refundable without interest if less than 10 years of service. If the withdrawal is after 10 years of service, the member may receive a refund without interest, or he is entitled to receive a vested benefit based on 2.5% of final average salary for each year of service, payable at age 50 or the date the member would have completed 20 years of service, if later.

- Firefighters with 20 or more years of service may elect to participate in the Oklahoma Deferred Retirement Option Plan (Plan) in lieu of normal or late retirement. Membership in the Deferred Option Plan shall not exceed five years. Under the Plan, retirement benefits are calculated based on compensation and service at the time of election. The retirement benefits plus half of the municipal contributions on behalf of the participant are deposited into a deferred retirement account, which earns interest. The participant is no longer required to make contributions. Upon retirement, the firefighter receives his monthly retirement benefit as calculated at the time of election. In addition, the amount accumulated in the deferred retirement account is payable either as a lump sum or as monthly payments.

The Oklahoma Law Enforcement Retirement System (OLERS) was established for the purpose of providing retirement allowances and certain death and disability benefits for qualified law enforcement officers as defined by statute. Currently, agencies and/or departments who are members of OLERS are the Oklahoma Highway Patrol and Capitol Patrol of the Department of Public Safety, the Oklahoma State Bureau of Investigation, the Oklahoma State Bureau of Narcotics and Dangerous Drugs Control, the Alcoholic Beverage Law Enforcement Commission, members of the Department of Public Safety (DPS) Communications Division, DPS Waterways Lake Patrol Division, Park Rangers of the Oklahoma Tourism and Recreation Department and inspectors of the Oklahoma State Board of Pharmacy.

The normal retirement date when the member is eligible to receive retirement benefits is when the member completes 20 years of service or age 62 with 10 years of service.

Members become vested upon completing ten years of credited service as a contributing member of OLERS. No vesting occurs prior to completing ten years of credited service. Members' contributions are refundable, without interest, upon termination prior to normal retirement. Members who have completed ten years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the member is entitled to a monthly retirement benefit commencing on the member's normal retirement date as if the member's employment continued uninterrupted.

Monthly retirement benefits are calculated at 2.5% of the highest 30 consecutive complete months of actual paid base salary multiplied by the years of credited service.

OLERS will contribute $75 per month or the Medicare supplement premium, if less, toward the cost of health insurance for members receiving retirement benefits. These benefits commence upon retirement. As of June 30, 1995, 310 members have elected this benefit.

Beginning September 1, 1991, active participants had the option to elect the Oklahoma Law Enforcement Retirement System Deferred Option Plan (Plan). The Plan allows members who have 20 or more years of service to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Plan, a separate account is set up for each member. During the participation period, the member's retirement benefit that would have been payable to the member is credited to the member's account along with a portion of the employer's contribution and interest as specified in the Plan provisions. Member contributions cease once participation in the Plan begins. At the conclusion of participation in the Plan, the member will receive the balance in the member's separate account under payment terms allowed by the Plan and will then begin receiving normal retirement benefit payments.

The Oklahoma Public Employees Retirement System (OPERS) covers substantially all state employees, except employees covered by six other plans sponsored by the State, and employees of participating county and local agencies. Agencies and/or participants not included in OPERS are as follows: Teachers, Municipal Police, Municipal Firemen, Judicial, Wildlife, Oklahoma Housing Finance Agency, and State Law Enforcement. In addition to retirement benefits, OPERS also provides certain death and disability benefits.

For purposes of the discussion on benefits and contributions, the members are described in the following categories: eligible officers, which includes certain employees of the Department of Corrections who are classified as a correction officer or a probation and parole officer; elected officials, which includes all elected officials who serve the State and participating counties except those officials covered by the other six plans sponsored by various agencies of the State ; and State, county, and local agency employees, which includes all other employees described above. If the member category is not specifically identified, the attributes of OPERS discussed apply to all members.

<u>State, County, and Local Agency Employees</u> **-** Benefits are determined at 2% of the average highest 3 years' annual covered compensation received during the last 10 years of participating service multiplied by the number of years of credited service determined for earnings prior to and after July 1, 1994, and combined for the purpose of determining maximum benefit. Normal retirement age under OPERS is 62. To qualify for purchase of "incentive credit", a member must be within 2 years of reaching their normal retirement date or eligible for or within 2 years of being eligible for early retirement. Members become eligible to vest fully upon termination of employment after attaining 8 years of credited service or the members' contributions may be withdrawn upon termination of employment.

<u>Elected Officials</u> **-** Benefits are determined as the greater of the calculation described in the preceding paragraph or based on the official's contribution election, a range from 1.9% to 4% of the highest annual covered compensation during the elected officials' participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Normal retirement age under OPERS is 60. Members become eligible to vest fully upon termination of employment after attaining 6 years of credited service or the members' contributions may be withdrawn upon termination of employment.

<u>Eligible Officers</u> **-** Benefits are determined at (a) 2.5% of the final average compensation not to exceed $25,000 and 2% of the final average compensation in excess of $25,000 up to the applicable annual salary cap multiplied by the number of years of service as an eligible officer accrued July 1, 1990, and after; (b) 2.25% of the final average compensation not to exceed $25,000 multiplied by the number of years of service accrued as an eligible officer prior to July 1, 1990; and (c) 2% of the final average compensation multiplied by the number of years of service in excess of 20 years and any other years of service creditable. Normal retirement age under OPERS is 50 with 20 years of creditable service as an eligible officer. However, members who contribute but do not qualify for normal retirement shall receive benefits computed at 2.5% of the final compensation for those full time years as an officer after July 1, 1990, 2.25% before July 1, 1990, and 2% for all other years of credited service. Members become eligible to vest fully after 20 years of full time service as an officer.

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the members' age and years of credited service equals or exceeds 80, and for any person who became a member after June 30, 1992, when the members' age and years of credited service equals or exceeds 90. Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have 6 or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior year service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employee and active wartime military service. A member with a minimum of 9 years, 6 months of participating service may elect early retirement with reduced benefits beginning at age 55.

OPERS remits $75 per month per eligible retirant, excluding beneficiaries and survivors, for health insurance benefits to the Oklahoma State and Education Employees Group Insurance Board. The amount remitted for the year ended June 30, 1995, was approximately $11,061,000.

The Uniform Retirement System for Justices and Judges (URSJJ) covers all justices and judges of the Oklahoma Supreme Court, Court of Criminal Appeals, Workers' Compensation Court, Court of Appeals, and District Courts.

Benefits are determined at 4% of the retirant's average monthly compensation for covered active service over the last 5 years times the total years of service in URSJJ, not to exceed 70% of a retirant's average monthly salary received as a justice or judge for the last 5 years. Normal retirement ages under URSJJ are as follows:

- When the sum of years served and age equals or exceeds 80
- Age 70 with 8 years of judicial service
- Age 65 with 10 years of judicial service
- Age 60 with 20 years of judicial service

Members are eligible to vest fully upon termination of judicial service after accumulating 8 years of credited service or the members' contributions may be withdrawn at the time such member ceases to be a justice or judge of a court within URSJJ. URSJJ also provides certain death and disability benefits.

URSJJ remits $75 per month per eligible retirant, excluding beneficiaries and surviving spouses, for health insurance benefits to the Oklahoma State and Education Employees Group Insurance Board. The amount remitted for the year ended June 30, 1995, was approximately $59,000.

The Oklahoma Police Pension and Retirement System (OPPRS) covers substantially all police officers employed by the 107 participating municipalities within the State. Police officers employed in participating municipalities are required to participate in OPPRS. Police officers are required to pass physical and medical examinations and must be at least 21 years of age.

The normal retirement date under the plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of OPPRS. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date he reaches 50 years of age or the date he would have had 20 years of credited service had his employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered. OPPRS also provides certain death and disability benefits.

Beginning in fiscal year 1991, active participants had the option to elect the Oklahoma Police Deferred Option Plan (Plan). The Plan allows participants otherwise eligible for a normal retirement benefit to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Plan, a separate account is established for each participant. During the participation period, the employee's retirement benefit that would have been payable to the participant is credited to his account along with a portion of the employer's contribution and interest as specified in the Plan provisions. Employee contributions cease once participation in the Plan is elected. At the conclusion of participation in the Plan, the participant will receive the balance in his separate account under payment terms allowed by the Plan and will then begin receiving retirement benefit payments.

The Teachers' Retirement System of Oklahoma (TRS) was established for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions.

TRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Benefit and funding provisions include:

Members become 100% vested in retirement benefits earned to date after 10 years of credited Oklahoma service. Members who joined TRS on June 30, 1992, or prior, are eligible to retire at maximum benefits when age and years of creditable service total 80 . Members joining TRS after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may, at age 62, receive full benefits or reduced benefits as early as age 55. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service. Final compensation for members who joined TRS on June 30, 1992, or prior, is defined as the average salary for the 3 highest years of compensation. Final compensation for members joining TRS after June 30, 1992, is defined as the average of the highest 5 consecutive years of annual compensation in which contributions have been made. The maximum final average compensation is $25,000, unless the member elects to make contributions on amounts above $25,000 in which case the maximum final average compensation is $40,000.

Upon separation from TRS, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the Internal Revenue Code. Members may also elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the Internal Revenue Code under Code Section 403(b).

For retirees that elect to obtain health insurance coverage through the Oklahoma State and Education Employees Group Insurance Board, TRS pays between $70 and $75 per month for each retiree, depending on the members' years of service. This amount was approximately $21,000,000 in 1995, and is included in retirement, death and survivor benefits.

C. **Employee and Employer Obligations to Contribute**

The contribution requirements for each of the PERS are an established rate determined by the Legislature and are not based on actuarial calculations.

Oklahoma Firefighters Pension and Retirement System (OFPRS) receives contributions from participating full-time firefighters equal to 8% of applicable earnings, while member cities contribute 12% of the member's applicable earnings. The contribution rate for paid firefighters is scheduled to increase on July 1, 1995, to 12.5%, and increase 0.5% on July 1, 1996. In addition, the member cities contribute $60 a year for each volunteer firefighter unless their income in the general fund is less than $25,000, in which case they are exempt. The State allocates 34% of the insurance premium tax collected from insurance companies on all types of insurance policies to OFPRS. The State may also allocate additional funds annually as needed to pay current costs and to amortize the unfunded actuarial present value of accumulated plan benefits.

Oklahoma Law Enforcement Retirement System (OLERS) receives contributions from state agencies and members of 10% and 8%, respectively, of the actual paid base salary of each member. OLERS also receives 1.2% of all fees, taxes, and penalties collected by motor license agents, 50 cents per vehicle inspection sticker issued and 5% of the insurance premium taxes collected by the State Insurance Commissioner. Additional funds are also provided to OLERS by the net investment income generated on assets held by OLERS.

Oklahoma Public Employees Retirement System (OPERS) receives contributions based on the following categories of employees:

State, County, and Local Agency Employees - In fiscal year 1994, state employees contributed 2% and other participants contributed between 2% and 7% of the first $25,000 of earned compensation. The employee whose annual salary exceeded $25,000 could elect to contribute 10% of salary in excess of $25,000 to a maximum of $40,000. State agencies contributed 11.5% in 1994 of active employees' earned compensation up to the first $25,000 of wages, and other employing agencies contributed between 6.5% and 11.5% of the first $25,000 of salary. The S tate and other employing agencies also contributed 11.5% in 1994 of participants ' annual earned compensation in excess of $25,000 not to exceed $40,000, for participants who elected to pay contributions on their earned compensation in excess of $25,000.

House Bill 2228, effective July 1, 1994, included a provision eliminating the option for employees to elect to pay contributions on their annual salaries up to $40,000 in excess of $25,000. Accordingly, each member participates based on their gross salary earned (excluding overtime) up to the maximum annual salary cap for the fiscal years ended June 30 as follows: 1995 - $50,000; 1996 - $60,000; 1997 - $70,000; 1998 - $80,000; and thereafter - No Cap.

The contribution rates in effect for the year ended June 30, 1995, and the rates in effect for subsequent years as established by House Bill 2228 for state employees and agencies are summarized as follows:

	State Employees			State Agencies			
Year Ended June 30	First $25,000	Next $15,000	Above $40,000 To Cap	First $25,000	Next $15,000	Above $40,000 To Cap	Salary Cap
1995	2.0%	3.5%	10.0%	11.5%	11.5%	0.0%	$ 50,000
1996	2.0%	3.5%	3.5%	11.5%	11.5%	11.5%	60,000
1997	2.5%	3.5%	3.5%	12.0%	12.0%	12.0%	70,000
1998	3.0%	3.5%	3.5%	12.5%	12.5%	12.5%	80,000
Thereafter	3.5%	3.5%	3.5%	12.5%	12.5%	12.5%	No Cap

House Bill 2228 also provided that participating county and local agencies may elect to divide their total contributions between the employer and employee on annual salaries up to $25,000 in varying ratios. However, the sum of the percentage contributions of the employer and employee must equal the required combined percentage of such contributions for state agencies and employees, and the employer and the employee must fall within allowed maximum and minimums. House Bill 1312, effective July 1, 1995, specified the minimum and maximum percentages allowed.

Elected Officials - During fiscal years ended June 30, 1995 and 1994, elected officials contributed between 4.5% and 10% of the first $25,000 of earned compensation. In accordance with House Bill 2228, effective July 1, 1994, elected officials' employee contributions were based on the maximum compensation levels set for all members and, the participating employers are required to contribute on the elected officials' covered salary using the same percentage and limits as applicable for state agencies. Prior to the effective date of House Bill 2228, elected officials whose annual salary exceeded $25,000 could elect to contribute 10% of salary in excess of $25,000 to a maximum of $40,000 and the employer contributed 10% of the total salary amount that the elected official elected for contributions, up to the $40,000 maximum.

Eligible Officers - In accordance with the provision of House Bill 2228, contributions on the first $25,000 of eligible salaries will increase by 0.5% annually from 6.5% to 8.0% for the fiscal year beginning July 1, 1998. Beginning with the fiscal year ended June 30, 1995, eligible officer contributions for salaries over $25,000 up to the applicable salary cap will be made at 8% for all periods and employer contributions will be made on the same basis as for state agencies.

Uniform Retirement System for Justices and Judges (URSJJ) member contributions for fiscal 1995 are 5% of members' monthly salary. If a member elects to extend the provisions of URSJJ to a surviving spouse, contributions are 8% of a member's monthly salary. Contributions from the participating courts are 10% of all fines, forfeitures and penalties received by the courts. Such contributions are determined every 2 months.

Until July 1, 1991, each municipality contributed to OPPRS 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 0.5% per year and will continue until July 1, 1996, when the contribution level reaches 13%. Each participant of OPPRS contributes 8% of their actual paid base salary. Additional funds are provided to OPPRS by the State through an allocation of the tax on premiums collected by insurance companies operating in Oklahoma, and by the net investment income generated on assets held by OPPRS.

Oklahoma Police Pension and Retirement System (OPPRS) receives contributions from each participating municipality and each participant. Until July 1, 1991, each municipality contributed 10% of the actual base salary of each participant employed by the municipality. Beginning July 1, 1991, municipality contributions increased by 0.5% per year and will continue until July 1, 1996, when the contribution level reaches 13%. Each participant of OPPRS will continue to contribute 8% of their actual paid base salary. Additional funds are provided to the OPPRS by the State through an allocation of the tax on premiums collected by insurance companies operating in Oklahoma, and by the net investment income generated on assets held by OPPRS.

Teachers Retirement System (TRS) participating members are required to contribute 6% of their applicable earnings up to a maximum of $25,000 and may elect to contribute 8% on the earnings in excess of $25,000 limited to $40,000. In 1995, employers are required to contribute 8% of a member's earnings up to the maximum compensation level. Contributions received by TRS from the State are used to offset required employer contributions. In 1995, employers contributed 2% of member earnings while the State contributed the remaining 6%. Oklahoma statutes require the State to contribute 5/7ths of 78% of the natural and casinghead gas tax collected each year. TRS received approximately $109,000,000 from the State and approximately $8,000,000 from federal sources in 1995.

D. Funding Status and Progress

The total pension benefit obligation is stated below for each retirement system. These totals are based on a standardized disclosure measure as required by Governmental Accounting Standards Board Statement 5 (GASB 5), *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*. The standardized disclosure measure is the actuarial present value of credited projected benefits, adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date. Use of the standardized measure enables readers of the State's financial statements to: (a) assess on an ongoing basis the funding status of each system, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons with other states or retirement systems. The standardized disclosure method is independent of the actuarial funding method used to determine contributions to the retirement systems. The assumptions used to determine the contribution rates are the same as/similar to those used in determining the pension benefit obligation.

Historical Trend Information for the six state administered systems is found in the Other Required Supplementary Information of this report. This will provide information about the progress made by the State in accumulating sufficient assets to pay benefits when due.

Actuarial determinations are made for the various retirement systems by independent consulting actuaries for each respective system.

The following summary of selected actuarial data has been compiled in accordance with GASB 5.

Pension Benefit Obligation (expressed in thousands):

	OFPRS	OLERS	OPERS	URSJJ	OPPRS	TRS
Actuarial Valuation Date	7-1-95	7-1-95	6-30-95	6-30-95	6-30-95	6-30-95
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 629,019	$ 146,137	$ 1,470,733	$ 32,827	$ 353,025	$ 3,505,943
Deferred Option Plan Participants: Member Employee-financed-vested	123,928	50,003	-	-	110,823	-
Current Employee:						
Accumulated employee contributions	60,037	*	189,498	7,987	58,284	1,628,397
Employer-financed vested	129,404	51,225	651,368	6,127	111,201	1,668,635
Employer-financed non-vested	167,281	43,199	413,349	28,363	145,287	90,715
Total pension benefit obligation	1,109,669	290,564+	2,724,948+	75,304 +	778,620	6,893,690+
Net Assets available for benefits:						
Cost	-	253,442	2,456,590	79,707	-	2,693,237
Market	711,816	**	**	**	713,957	**
Unfunded pension benefit obligation	$ 397,853***	$ 37,122	$ 268,358	$ (4,403)	$ 64,663	$ 4,200,453

* Accumulated employee contributions is reported in the amount listed as employer-financed vested.

** Market value of net assets available for benefits is:

OLERS - $282,963; OPERS - $2,779,107; URSJJ -$91,152; TRS - $2,978,530

*** Presented net of monies currently held in the deferred option plan accounts, which amounts to $52,575,559.

\+ The OLERS, OPERS, URSJJ, and TRS provide a contribution toward the cost of health insurance for electing members. Funding for such health insurance benefit is considered as part of the overall System requirement. No separation of pension obligation and health insurance obligation is made by the System and assets are not allocated between obligations. The pension benefit obligation disclosed above for OLERS includes $7,874,392 at July 1, 1995, relating to the System's health insurance obligation. The actuarial valuation for these obligations assumes that all active, deferred vested and deferred option plan members elect the health insurance benefit upon retirement

The Pension Benefit Obligation for each of the PERS was determined as part of an actuarial valuation at the dates noted in the table above. Changes in the TRS actuarial assumptions increased the June 30, 1995 unfunded Pension Benefit Obligation by approximately $449,000,000.

Significant actuarial assumptions	OFPRS	OLERS	OPERS	URSJJ	OPPRS	TRS
Rate of return on investments	7.5%	7.0%	7.5%	7.5%	7.5%	8%
Annual salary increase for inflation	Sliding scale in 5 yr increments starting with 7.4% at age 25 and ending with 5.7% at age 55. Benefit levels for Voluntary firefighters are assumed to increase 5.5% per year.	5% combined for inflation and merit	4.7%	4.5%	No breakout for inflation, merit and cola. The total is 6%.	4% inflation rate and 0.5% for productivity.
Annual salary increase for merit	None		0.1% to 2.8%	1.0%		Descending scale starting at 3.25% during the first year and descending to 0% after 15yrs.
Cost of living adjustments	2.75% increase for employees fully vested by May, 1983	None	None	None		None
Retirement Age	Volunteer firefighter - later of current age or age when first eligible. Full-time firefighter is eligible after 20 yrs of service. Retirement ages vary by accumulated credited service e.g. 20 yrs - 50%, 21-29 - 20% 30 yrs - 100%	Retirement ages vary by accumulated credited service e.g. 20 yrs - 50%, 21-29 - 20% 30 yrs - 100%	Age 62 for non elected members and age 60 for elected members	The earlier of age 65 with 10 years of service or the first age at which the Rule of 80 occurs.	After 20 years of service, regardless of age.	Rates based on the 1995 Experience Study. Rates range from age 50 to 70.
Mortality basis	1975 Group annuity Mortality Table	Post-retirement based on 1983 Group Annuity Mortality Table. Pre-retirement based on 1971 Group Anuuity Mortality Table.	Active and nondisabled retirees - 1983 Annuity Mortality Table. Disabled reitrants - 1983 Railroad Retirement Ultimate Mortality Table	Active and non - disabled retirees are 1983 Annuity Mortality Table. Disabled retirees are 1983 Railroad Retirement Ultimate Mortality Table.	Pre-retirement 1971 Group Annuity Mortality Table projected to 1975. Post-Retirement 1983 Annuity Mortality Table	Rates based on 1990 Experience Study. Rates range from age 25 to 65.
Rate of turnover	A high scale that becomes progressively lower as age advances	Graduated rates by age.	Graduated select and ultimate rates. Attained age 20 to 70, rates range from 12.04 to 0.	None	Graduated rates by age.	Rates of turnover based on 1995 Experience Study. Rates range from age 25 to 65.

E. Effects of Current Year Changes on Pension Benefit Obligation and Contribution Requirements

State law requires each of the PERS to have an actuarial report every year. The report determines the system's funding requirements which may be affected by changes in actuarial assumptions, benefit provisions, actuarial funding method or other significant factors since the preceding valuation .

Oklahoma Law Enforcement Retirement System - As a result of Senate Bill 615, beginning July 1, 1994, members who retired or were eligible to retire before July 1, 1980, (or their surviving spouses) will receive a monthly benefit equal to the greater of their current benefit or 2.5% of the gross salary currently paid to a highway patrol officer times the member's years of service. In addition, all retirees receiving benefits as of June 30, 1993, will receive a 2.5% increase in benefits on July 1, 1994.

Oklahoma Public Employees Retirement System - As a result of House Bill 2228, effective July 1, 1994, the following changes were made:

- The bill provided for an increase in retirement payments, effective July 1, 1994, for persons receiving benefits from OPERS as of June 30, 1993. The annual increase was computed by multiplying $9.94 ($497 x 2%) times the number of years of the retired members' credited service. The increase reflected the impact of any survivor benefits selected by the member at the time of retirement. A minimum final average salary for all members retiring after July 1, 1994 was set at $13,800.

- In addition to the changes to the contribution requirement as discussed in Item C of this Note, the bill removed the 3 year period for electing the over $25,000 salary cap and allows members who failed to make the election prior to June 30, 1994, to make such an election at any time prior to retirement by paying the back employee contributions plus 7.5% compounded interest.

- Effective July 1, 1995, increases in retirement benefits which would cause the funded ratio of the system after payment of the increases to be less than 70% are prohibited. The funded ratio is defined as the actuarial value of assets divided by the actuarial accrued liability.

As a result of Senate Bill 786, effective July 1, 1994, the following change to OPERS has been made:

- Members who retire under one of the two survivor benefit options will be allowed to change their benefit selection from the chosen option back to the maximum benefit (no option, no reduction in benefits) upon the death of the member's selected joint annuitant (survivor).

As a result of Senate Bill 767, effective July 1, 1994, the following change to OPERS has been made:

- Members will be provided with an alternative to purchasing service credit for transfers of qualified service credit between OPERS and TRS. The transferring system will transfer funds to the receiving system for service credit on an unescalated salary basis. The receiving system will price the service credit on an escalated salary basis with the member paying the receiving system an amount equal to the difference.

As a result of House Bill 1312, effective July 1, 1995, the following changes to OPERS were made:

- In addition to the changes to the contribution requirement as discussed in Item C of this Note, the final average compensation used to compute service accrued prior to July 1, 1994, is changed to using the highest three years out of the last ten years of participating service prior to retirement or termination as opposed to service prior to July 1, 1994, as provided in House Bill 2228 enacted in fiscal year 1994. OPERS is required, prior to January 1, 1996, to pay any members retiring on or after July 1, 1994, and prior to July 1, 1995, any retroactive increase in benefits due to this change. Such retroactive payments are not expected to be material.

- Current contributing members who, as former members, withdrew their accumulated contributions, contributing elected members who at the time of initial eligibility to participate as a member of OPERS elected not to participate, and/or contributing elected members who at the time of eligibility to participate as a member of OPERS elected to participate but did not elect to participate the maximum contribution rate may amortize the cost of returning the withdrawn or unremitted contributions over a period not to exceed 60 months, through payroll deduction. The amortization includes interest in an amount not exceed the actuarial interest rate adopted by OPERS for investment earnings each year.

Uniform Retirement System for Justices and Judges - The decrease in the surplus of net assets available for benefits over the total pension benefit obligation from June 30, 1995, to July 1, 1995, of approximately $1,737,000 is due to legislated plan provisions which changed the basis for the final average salary used in the benefit calculation to the last three years of active service instead of the last five years, effective July 1, 1995.

Effective July 1, 1995, increases in retirement benefits which would cause the funded ratio of the system after payment of the increases to be less than 70% are prohibited. The funded ratio is defined as the actuarial value of assets divided by the actuarial accrued liability.

Oklahoma Police Pension and Retirement System - Certain retirees are entitled to receive a cost of living allowance (COLA) when a COLA is granted to active police officers in the retiree's city. Participants eligible to receive a COLA and a legislative increase are to receive the greater of the legislative increase or the benefit increase the participant would receive pursuant to the COLA provision. The Legislature granted a 2.5% increase in benefits to retirees receiving benefits as of June 30, 1993, effective July 1, 1994. Retirees receiving automatic COLAs will have this amount offset by the cumulative increases received after July 1, 1990.

Teachers Retirement System - Senate Bill 568 provided the following changes to the Plan:

- Employer contribution rates increase to 7% of annual compensation on July 1, 1992, 7.5% on July 1, 1993, and 8% on July 1, 1994. On July 1 of each year after July 1, 1994, employer contribution rates increase by 1% each year through July 1, 2004, in which employer contribution rates reach a maximum of 18% of annual compensation. Contributions received by the System from the State will be used to offset employer contributions.

- Effective July 1, 1995, the maximum salary cap of $40,000 is eliminated.

- Employee contribution rates are changed to 7% of annual compensation effective July 1, 1997, through a phased-in approach according to the following:

  - For compensation up to $25,000, employee contribution rates are increased to 6.5% on July 1, 1996, and 7% on July 1, 1997, and thereafter.

  - For compensation between $25,000 and $40,000, employee contribution rates are decreased to 9% on July 1, 1993, 8% on July 1, 1994, and 7% on July 1, 1995, and thereafter.

- For members joining the System after June 30, 1992, final compensation has been changed to the average of the highest five consecutive years of annual compensation in which contributions have been made.

- Members joining the System after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total ninety.

In 1994, the Legislature passed Senate Bills 767 and 768 and House Bill 2228. These bills became effective July 1, 1994. Senate Bill 767 provides for the transfer of service credit between the TRS and the OPERS. Senate Bill 768 changes the joint options to "pop-up" options. This change was made for both current and future retirees. Under a pop-up option, if the joint annuitant predeceases the member, the member's benefit is increased to the amount the benefit would have been if the member had elected a life only annuity. House Bill 2228 provided for an ad hoc COLA payable to members receiving benefits. The average increase is approximately 2.5%.

In 1995, the Legislature passed Senate Bill 527 which becomes effective July 1, 1995. The bill modified the provisions for members in higher education who were members prior to July 1, 1995. The salary caps for contribution payments of $25,000 up to $40,000 remained in place for two additional years; however, were indexed to $27,500 and $44,000 for 1996 and to $30,000 and $48,000 for 1997. These members' contribution rate was also changed to 6% and 6.5% for 1996 and 1997, respectively. The benefit provisions were also modified so that benefits would only be paid up to the maximum contribution level for these years. Beginning July 1, 1997, these members will contribute 7% of total compensation consistent with those members who joined the TRS after July 1, 1995. In addition, the bill modified Senate Bill 568 employer's contribution rate schedule. The new employer rates are 50 basis points lower in each year until the rate reaches 18%. This bill has no effect on the June 30, 1995, unfunded Pension Benefit Obligation.

F. Contributions Required and Contributions Made

As noted above, contribution requirements for each of the PERS are an established rate determined by the Legislature and are not based on actuarial calculations. Actuarially determined contribution requirements consist of an amount for normal cost that is the estimated amount necessary to finance benefits earned by the members during the current service year and an amount for amortization of the unfunded actuarially accrued liability over the remainder of the amortization period applicable for each system.

Total covered payrolls, actual contributions for each of the PERS and plan contributions for all participants for the year ended June 30, 1995, are as follows (expressed in thousands).

	OFPRS		OLERS		OPERS		URSJJ		OPPRS		TRS	
	Amount	Percentage of current covered payroll	Amount	Percentage of current covered payroll	Amount	Percentage of current covered payroll	Amount	Percentage of current covered payroll	Amount	Percentage of current covered payroll	Amount	Percentage of current covered payroll
Total Covered Payrolls:	$110,295		$29,300		$1,095,907		$16,888		$129,702		$2,336,116	
Contributions:												
Actuarially determined contribution requirement	66,633	60.4%	10,159	34.7%	159,204	14.5%	3,609	21.4%	39,984	35.4%	434,729	18.6%
Employee' contribution	8,271	7.5%	2,306	7.9%	29,203	2.7%	1,093	6.5%	9,040	8.0%	152,294	6.5%
Employers' contribution	15,068	13.7%	3,554	12.1%	118,787	10.8%	3,704	21.9%	15,168	13.4%	43,390	1.9%
Other dedicated revenues	35,345	32.0%	11,880	40.5%	0	0%	0	0%	14,555	13.5%	117,607	5.0%
Total	58,684		17,740		147,990		4,797		38,763		313,291	
Contribution Allocations:												
Normal cost	25,542		6,593		86,653		3,292		23,536		61,580	
Amortization of unfunded actuarial accrued liability	41,091		3,366		61,353		0		15,814		373,149	
Administrative Expense	0		200		11,198		317		634		0	
Total	$ 66,633		$10,159		$ 159,204		$ 3,609		$ 39,984		$ 434,729	
Actuarial funding method	Entry Age		Entry Age		Entry Age		Entry Age		Entry Age		Entry Age	
Method for amortizing unfunded actuarial accrued liability	Level dollar		Level dollar		Level dollar		Does not apply		Level dollar		Level dollar	
Period for amortizing unfunded actuarial accrued liability	30 years beginning July 1, 1988		20 years beginning July 1, 1988		25 years beginning July 1, 1987		Does not apply		20 years beginning July 1, 1988		40 years beginning July 1, 1987	

G. Other Retirement Systems

The **Wildlife Conservation Commission Retirement System**, a privately administered defined contribution retirement plan, provides lifetime benefits for each eligible member. Eligible members consist of all full-time employees of the Department of Wildlife Conservation who have completed one year of service and agreed in writing to make member contributions equal to 2% of their base salary. Benefits to retired employees are generally based on the final average earnings and continuous years of service. Contribution requirements are based on total annual compensation rather than total covered compensation. Total annual compensation included in the valuation at June 30, 1995, was $9,443,019. The Department periodically contributes an amount necessary to keep the p lan funded, however did not make a contribution for the year ended June 30, 1995. Total employee contributions totaled $188,781 for the year ended June 30, 1995.

The **Oklahoma Housing Finance Agency** (OHFA), a component unit of the State, contributes to the Oklahoma Housing Finance Agency Retirement Plan, which is a defined contribution plan. Under its provisions, employees become eligible for the plan after one year of service, at which time OHFA may contribute up to 10% of the employees' compensation to the Plan. OHFA's contribution amount is at the discretion of the Board of Trustees and does not have any limitations. Employees begin vesting after two years of service and become fully vested after six years of service. For the year ended September 30, 1994, OHFA's retirement plan expense for the year was $227,696. Total payroll was $2,316,857, and total covered payroll was $2,276,961 .

The entities included in the **Higher Education Component Unit** are all participants in TRS. However, some employees, depending on job classification, are covered by other retirement plans. The specific disclosures regarding these retirement plans can be found in each of the entities independent audit report which has been previously issued under separate cover.

Some **Public Beneficiary Trusts** are not eligible for participation in OPERS. These trusts may have their own retirement plans.

Note 21. Other Postemployment Benefits

In addition to the pension benefits described in Note 20, the State provides post-retirement health care benefits (OPEB). Oklahoma Law Enforcement Retirement System (OLERS), Oklahoma Public Employees Retirement System (OPERS) and Uniform Retirement System for Judges and Justices (URSJJ) pay the medicare supplement premium or $75 per month, whichever is less, for all retirees who elect coverage at time of retirement through the Oklahoma State and Education Employee Group Insurance Board. Teachers' Retirement System of Oklahoma (TRS) pays between $70 and $75 per month for each retiree, depending on the member's years of service.

		Current Year Expenditures	Eligible Participants	Enabling Legislation
OLERS	$	284,475	310	Title 74, 1316.2
OPERS	$	11,061,000	12,513	Title 74, 1316.2
URSJJ	$	59,000	71	Title 74, 1316.2
TRS	$	21,000,000	29,007	Title 74, 1316.2

OLERS, OPERS, and TRS fund postemployment health care benefits as part of the overall retirement requirement. No separation of pension obligation and health insurance obligation are made by OLERS, OPERS, URSJJ and TRS and assets are not allocated between obligations. The P ension Benefit Obligaton for OLERS included $7,874,392 relating to their health insurance obligation for the fiscal year 1995. Disclosure information regarding OPEB is included in Note 20 .

Oklahoma Firefighters Pension and Retirement System and Oklahoma Police Pension and Retirement System do not provide other postemployment benefits.

Fifteen of the colleges and universities included in the Higher Education Component Unit offer post-employment benefits which primarily provide health, dental and life insurance benefits. The eligibility requirements differ depending on the college or university. The benefits are funded on a pay-as-you-go basis and approximately $1,643,000 was expended for these benefits during the year ended June 30, 1995.

Note 22. Commitments

A. **Primary Government**

The **Department of Transportation** had contractual commitments at June 30, 1995, of approximately $374,400,000 for construction of various highway projects. Future appropriations will fund these commitments as work is performed.

The **Department of Human Services** (DHS) maintains a construction unit which engages in capital improvements of State buildings. At year end, DHS had long-term projects totalling $44,800,000 for the General Fund and $4,200,000 for the Capital Projects Fund. The **Department of Rehabilitation Services** had long term projects totalling $720,000 for the General Fund.

The **Oklahoma Center for the Advancement of Science and Technology** (OCAST) has contracts with various institutions and organizations for the purpose of funding the specific objectives authorized by its Board of Directors within the scope of the programs it administers. Fund Balance, Reserved for Other Special Purposes, includes commitments to grantees, in the amount of $429,0 00. Substantially all of this amount will be paid to grantees over the next year. For the year ended June 30, 1995, OCAST made payments to the grantees in the amount of $2,323,000 .

B. **Component Units**

The **Oklahoma Industrial Finance Authority** (OIFA) had outstanding loan commitments at June 30, 1995, approved by its Board of Directors totaling $2,930,000. Subsequent to June 30, 1995, OIFA has issued additional commitments of $463,000. These loan agreements included a "pending clause" which stated that money would be disbursed upon availability of funds.

The **Oklahoma Turnpike Authority** (OTA) had commitments at December 31, 1994, outstanding relating to equipment orders and maintenance projects of approximately $10,416,000. At December 31, 1994, OTA had commitments outstanding relating to construction contracts of approximately $2,285,000.

The **Grand River Dam Authority** (GRDA) has entered into agreements to purchase and transport coal for future use in Unit No. 1 and Unit No 2. Under the agreements, GRDA is committed to purchase and transport a specified number of tons of coal each year over the remaining lives of the agreements. Under terms of the agreements, the price of the coal and transportation costs are subject to escalation and prices may be renegotiated at specified times. Total purchases under the agreements was $59,912,000 for 1994. GRDA also entered into a lime purchase agreement in 1993. Under the agreement, GRDA is committed to purchase a specified number of tons of lime each year over the remaining life of the agreement. The price per ton increases yearly as specified by the contract.

The **Oklahoma Municipal Power Authority** (OMPA) has entered into an agreement with the City of Ponca City, a member municipality, under which OMPA will complete repowering of the existing Ponca City Power Plant. As of December 31, 1994, OMPA's commitments for the construction of the repowering project and other projects total approximately $7,000,000 . Amounts budgeted, not yet committed, approximate $14,000,000 .

During 1994, approximately $12,560,000 of power was purchased pursuant to several long-term purchase agreements. OMPA is obligated to purchase, at a minimum, approximately $6,100,000 annually through 2000 decreasing to $2,880,000 annually through 2003.

Under the bond resolutions, OMPA has covenanted that it will establish and collect rents, rates and charges under the power sales contracts and will otherwise charge and collect rents, rates and charges for the use or sale of the output, capacity or service of its system which, together with other available revenues, are reasonably expected to yield net revenues for the 12 month period commencing with the effective date of such rents, rates and charges equal to at least 110% of the aggregate debt service for such period and, in any event, as are required, together with other available funds, to pay or discharge all other indebtedness, charges and liens payable out of revenues under the resolutions.

Note 23. Litigation and Contingencies

The State and its component units are parties to numerous legal proceedings, many of which normally occur in governmental operations. Based on information provided by the Attorney General and various state agency's General Counsel, the legal proceedings are not likely to have a material adverse impact on the State's financial position.

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by federal agencies. Any disallowances as a result of these audits could become a liability of the State. As of June 30, 1995, the State is unable to estimate what liabilities may result from such audits.

Primary Government

The **Department of Transportation** (DOT) has incurred significant expenditures on construction projects that have exceeded the amounts approved by the federal grantor. These project expenditures are held in suspense until approved by the federal grantor and subsequently reimbursed. Based on prior years' experience, the reimbursement of expenditures held in suspense is highly probable. At June 30, 1995, DOT had project expenditures totalling $25,000,000 that will be reimbursed pending approval of the Federal Government.

The **Oklahoma Water Resources Board** (Board), pursuant to statute, assumed the obligations of the Oklahoma Water Conservation Storage Commission including a 1974 contractual obligation to repay the United States (through the Army Corps of Engineers) for the costs of constructing water supply storage at Sardis Reservoir in southeastern Oklahoma. Under the 1974 contract, annual payments are to be made for the reservoir construction, operation, and maintenance allocated to the present use water supply storage. The Board has not received legislative authorization to pay the annual payments due in years 1989 through 1996. The Army Corps of Engineers has indicated that the obligation may be declared in default and remedies sought. No further action has been taken by the Army Corps of Engineers pending pursuit of the possible sale of water from Sardis Reservoir to an out of state water district. The proceeds from the sale of water would be used to make annual payments to the United States. Total unaudited construction costs of the Sardis Reservoir allocated to water supply storage, as last estimated by the Army Corps of Engineers, are approximately $37,000,000, repayment of which is governed by the 1974 contract. It is unknown at this time what the final outcome and/or annual payment schedule, if any, will be.

Note 24. Subsequent Events

Component Units

Between November 1994 and March 1995, the **Oklahoma Housing Finance Agency** authorized or issued four series of revenue bonds. A summary of the primary purposes follows.

Issue	Purpose
$35,000,000 Single Family Mortgage Revenue Bonds 1994 Series D	Partially refund 1988 Series A Bonds
$16,670,000 Single Family Mortgage Revenue Bonds 1994 Series A-2 and Series C-1	Remarket to a long-term fixed rate of interest, a portion of 1994 Series A and Series C Bonds
$26,600,000 Single Family Mortgage Revenue Bonds 1994 Series C-2 and Series D-1	Remarket to a long-term fixed rate of interest, a portion of 1994 Series C and Series D Bonds
Approved issuance of $22,940,000 1995 Series A Bonds	Purchase Single Family Mortgage Loans

Between June 1995 and September 1995, the **Board of Regents of the University of Oklahoma** authorized the issuance of four series of revenue bonds. These bonds are payable solely from the revenues and assets pledged for their issue. A summary of the primary purposes follows.

Issue	Purpose
$26,675,000 Oklahoma Development Finance Authority Public Facilities Program Revenue Bonds 1995 Series A	Construct, renovate and improve a variety of buildings and facilities
$6,050,000 Board of Regents Parking Revenue Bonds Series 1995	Construct new covered parking facility and two surface lots
$2,000,000 Board of Regents Student Center Revenue Bonds Series 1995	Construct new Student Center
$8,985,000 Board of Regents Utility System Revenue Refunding Bonds Series 1995	Refund 1987 Utility Bonds

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